



Boustead Singapore (BOCS SP)

Singapore small-cap conglomerate run by a legendary entrepreneur



ASIAN
CENTURY
STOCKS

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Summary



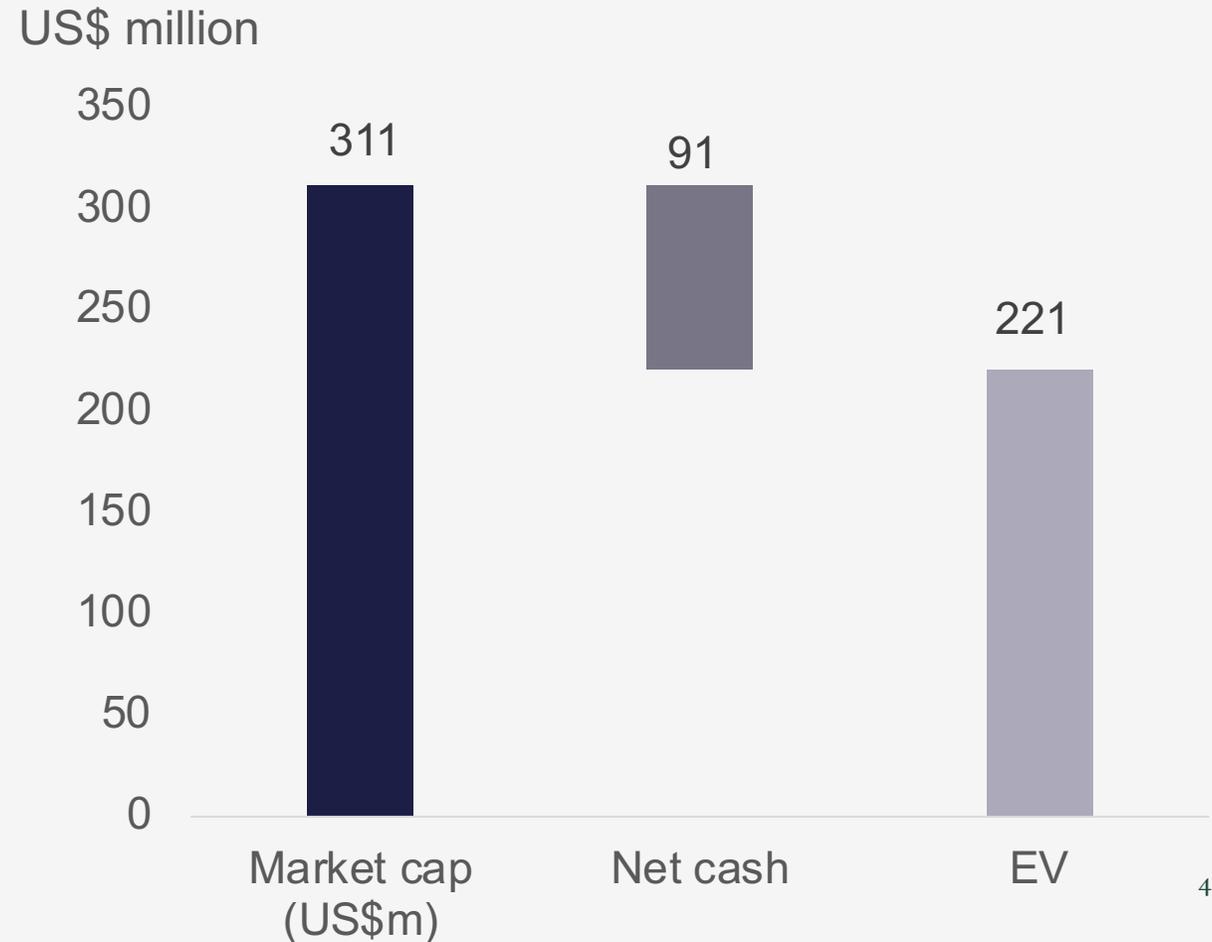
1. Boustead Singapore (BOCS SP) is a small-cap conglomerate that began as a British trading house and is now engaged in four separate businesses:
 - Industrial property development and leasing: Through the company's 54.8% stake in separately listed Boustead Projects (BOCJ SP), it develops industrial property in Singapore, Malaysia, Vietnam and China on a turnkey basis. Increasingly, the assets end up being owned by the Boustead Industrial Fund, enabling Boustead Projects to focus on the asset-light development business only.
 - Geo-spatial software services: Boustead Singapore acts as one of the top distributors of ESRI's geo-spatial mapping software, which is predominantly used by governments, and customised by Boustead Singapore according to their wishes. This segment enjoys secular growth in the high-single digit range.
 - Energy sector engineering services: The company acts as a supplier of direct-fired process heater systems for the distillation of crude oil, as well as waste-heat recovery units. This segment has suffered immensely since 2015 due to the weak oil price.
 - Healthcare equipment: A small business area Boustead recently entered. Sells exoskeleton legs, and treadmills for rehabilitation.
2. Today, Boustead Singapore is run by FF Wong, who is known as a genius entrepreneur and turnaround expert. He saved QAF from bankruptcy and helped build Gardenia into a household brand. After selling his stake in QAF, he acquired Boustead Singapore, and has built it to what it is today.
3. The geo-spatial software services business and the industrial property development business has continued to grow over the past ten years, but the progress has not been apparent in the financials given the implosion of the energy services business. Today, oil companies are flush with cash, making some investors hope that downstream & upstream capex will eventually recover.
4. Boustead Singapore is also trying to privatise its industrial property subsidiary Boustead Projects. While shareholder associations are currently protesting against the low offer price, the deal is still likely to go through, albeit at a higher price than the initial offer. A takeover of Boustead Projects is likely to be additive to NAV/share, in my view.
5. Even before the deal, a sum-of-parts puts the NAV/share at about SG\$2.0. Assuming a certain recovery to mid-cycle profitability for the energy engineering services business, we are likely to reach a mid-single digit P/E and a high-single digit dividend yield. The key risk is that a recovery in oil & gas (especially downstream) capex never materialises.

Boustead Singapore has a clean balance sheet



- Share price: SG\$0.87
- Shares outstanding: 478 million
- Market cap: US\$311 million
- Net cash: US\$91 million
- Enterprise value: US\$221 million

- Average daily trading volume: US\$111,000



* SG\$ = Singapore Dollar. SG\$/US\$ = 1.334

Business overview

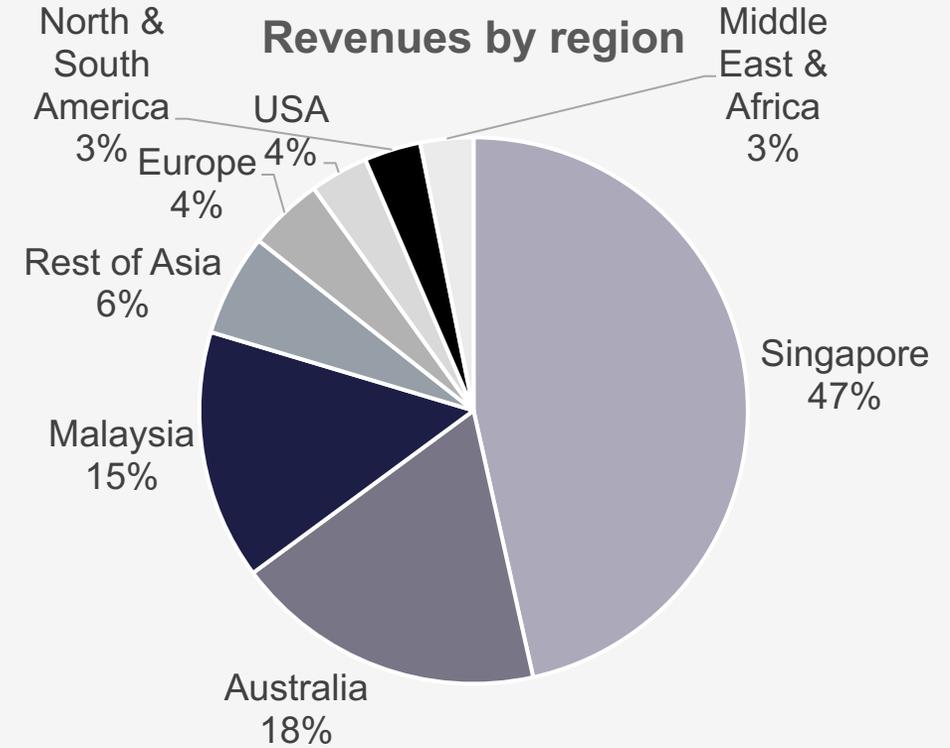
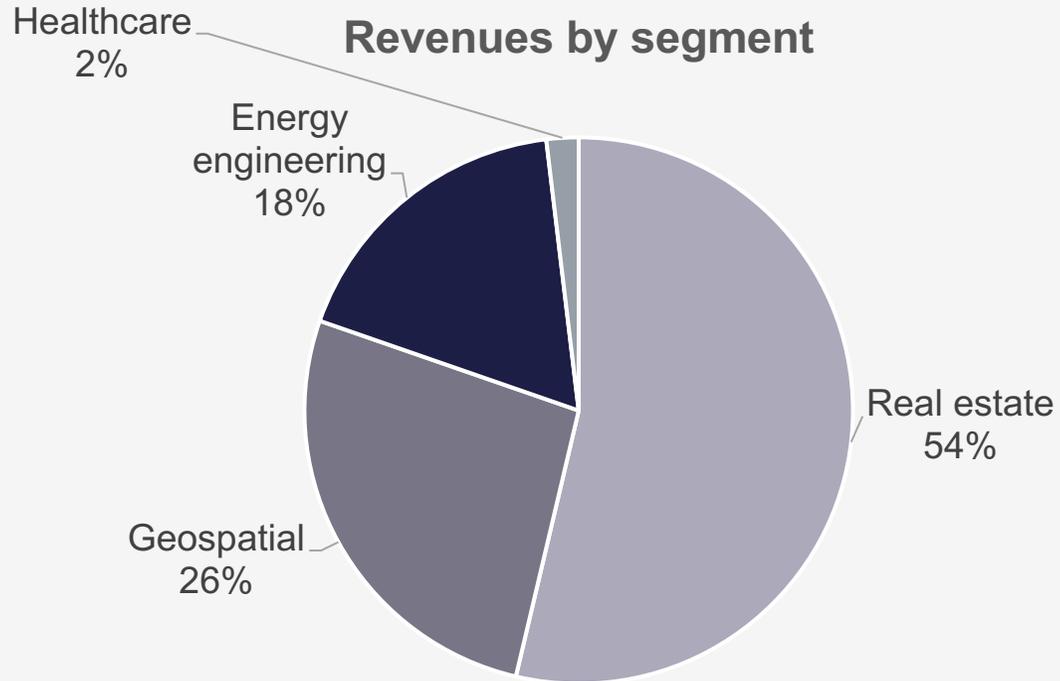


- Boustead Singapore (BOCS SP) is a conglomerate present in four separate businesses:
 1. Industrial property: A portfolio of leased industrial real estate
 2. Geo-spatial technology: Supplier for Southeast Asia and Australia to geographic information systems industry leader ESRI
 3. Energy services: Energy engineering business for refineries and oil & gas exploration
 4. Healthcare: Exoskeleton legs, anti-gravity treadmill products for rehabilitation purposes
- The company has a storied history as a British trading house. It's in fact the oldest listed company in Singapore. The company's strong reputation helps open doors.
- Today, Boustead Singapore is run by Fong Fui ("FF") Wong, who acquired a controlling stake in the business at a valuation of SG\$80 million and has built the business into what it is today. He's known as a turnaround specialist, having saved QAF from bankruptcy and started a number of other successful businesses.
- Pre-2015, the company enjoyed a high return on equity above 20%. Since then, the industrial property and geo-spatial businesses have continued to perform nicely. But engineering services profits were decimated by the downturn in oil & gas company capex. Meanwhile, the healthcare business remains unprofitable. The big question is how long these challenging conditions will last.



Chairman & CEO FF Wong

Boustead Singapore's four business segments



Source: Bloomberg



1.1 Industrial property: Boustead Projects

- Boustead Singapore spun off its industrial property segment Boustead Projects (BOCJ SP) back in May 2015. It's currently a 54.8% shareholder in Boustead Projects.
- The business develops and manages industrial property and business parks in Singapore:
 - Development (Design & Build): Boustead targets MNCs and tech companies that need industrial property, and Boustead then does the rest, including purchasing land, obtains permits, liaises with architects, oversees the construction, etc. Some pieces are outsourced. It's a service business with very few fixed costs. Its one of the few companies with full turnkey capabilities, together with Ascendas and Bovis.
 - Leasing: Boustead Projects owns industrial properties on the balance sheets which it leases for 10 to 20 years. In those cases, revenues are only booked after construction. Some of those properties are wholly-owned, some jointly owned and some of them were divested during FY2021 to the private business trust Boustead Industrial Fund (BIF). This trust is owned 49% by institutional investors, 26% by Metro Holdings (METRO SP) and 25% by Boustead Projects.
- Outside of Singapore, Boustead Projects is involved with the Boustead Industrial Park in Vietnam, Wuxi Boustead Industrial Park in China and a JV with Malaysia Airports at the Subang Aerotech Park in Selangor, Malaysia.
- More recently, Boustead Singapore has made an offer to privatise Boustead Projects at a 50% discount to NAV. Shareholder association SIAS is urging Boustead Singapore to up the offer, which it considers to be unfairly low.



1.2. An example project undertaken by Boustead Projects



- Boustead Projects built the ALICE @ Mediapolis smart business park development, completed in 2018.
- It's a 12-floor business park close to One North MRT in Singapore
- A number of smart features were built into the property, including solar panels on the roof, docking stations for bicycles and other mobility devices, prefab bathroom units and a tenant services app enabling quick response on any tenant queries.
- Alice's tenants are primarily SMEs and venture capital funded start-ups in the tech and communications industries.
- It won the Green Mark Platinum BCA Awards in 2018, given by the government to developers with outstanding achievements in environmental sustainability.
- Today, the property is fully owned by Boustead Projects.



1.3. The setting up of the Boustead Industrial Fund in 2021

- Boustead Projects set up the Boustead Industrial Fund (BIF) in 2021. It's 25% owned by Boustead Projects itself, 26% by Metro Holdings (METRO SP) and 49% by undisclosed institutional investors.
- The fund is a private business trust, and unlike REITs, not listed on a stock exchange or accessible by private investors.
- BIF was seeded with 14 industrial property assets from Boustead Projects, with a total market valuation of SG\$511.3 million (at theoretical 100% ownership).
- Boustead Projects raised SG\$328.4 million in gross proceeds from the transaction, although SG\$72.7 million of this was then reinvested to obtain a 25% stake in BIF.
- Capital raised by Boustead Projects by selling its 14 properties was to be used to expand its overall business and a special dividend.

Media Coverage

Publication: *The Edge Singapore Digital*
Date: 4 March 2021
Author: Atiqah Mokhtar

Boustead Projects launches Boustead Industrial Fund, completes divestment of 14 properties

Boustead Projects has completed transactions related to the establishment of Boustead Industrial Fund (BIF), a private business trust for the purposes of holding and managing Boustead Project's real estate assets.

Following its initial announcement of the proposed fund on Dec 31, 2020, Boustead Projects obtained unanimous shareholder approval for the setup of the fund via an extraordinary general meeting (EGM) held on Feb 25.

Pursuant to the EGM, Boustead Projects has completed an initial subscription in BIF via its wholly-owned subsidiary BP-Real Estate Investment and now holds a 25% stake in BIF through the subscription of units and notes issued.

The other initial investors in BIF have also completed similar subscriptions, with AP SG 21 and Metrobilt Construction now holding 49% and 26% of the total units and notes respectively.

BIF has been seeded with 14 properties, which it acquired in full or partial interest from Boustead Projects and its joint venture partners. The total market valuation of these properties is \$511.3 million and their envisaged total consideration is \$519.9 million (assuming BIF had acquired 100% interest in all 14 properties).

Boustead Projects states that the exercise has unlocked value from the company's leasehold portfolio, which will enable Boustead Projects to recycle capital towards strategic plans.

The company raised \$328.4 million in gross proceeds from the transactions, of which \$95.82 million has been utilised to discharge bank loans and encumbrances related to the seed properties, \$72.7 million was spent for the initial subscription in BIF, and \$20.5 million allotted for other agreed costs including professional, legal, rectification and other potential top-ups.

The balance proceeds of approximately \$139.4 million will go towards the expansion of Boustead Projects' businesses in Singapore and overseas, general corporate and working capital requirements, along with the potential declaration of a special dividend.

Samuel Lim, Director (Real Estate) at Boustead Projects says the fund marks a significant milestone in transforming Boustead Projects' real estate business from a developer-owner model to one focused on development and management.

"BIF is well-positioned for growth through the further acquisition of stabilised properties, with a visible pipeline of assets under development or stabilisation by Boustead Projects, in addition to other third-party assets available on the open market," he adds.

As at 10.26am, shares in Boustead Projects are up 1 cent or 1.0% at \$1.00.



1.4. Properties now owned by the Boustead Industrial Fund

 <p>351 Braddell Road</p> <p>Year completed 2021 GFA (sqm) 24,213</p>	 <p>84 Boon Keng Road (Phase 3)</p> <p>Year completed 2018 GFA (sqm) 11,151</p>	 <p>20-23 Rochester Park</p> <p>Year completed 2016 GFA (sqm) 14,516</p>	 <p>10 Tukang Innovation Drive</p> <p>Year completed 2014 GFA (sqm) 26,459</p>
 <p>11 Seletar Aerospace Link</p> <p>Year completed 2015 GFA (sqm) 3,567</p>	 <p>80 Boon Keng Road (Phase 2)</p> <p>Year completed 2014 GFA (sqm) 4,936</p>	 <p>16 Tampines Industrial Crescent</p> <p>Year completed 2013 GFA (sqm) 20,020</p>	
 <p>80 Boon Keng Road (Phase 1)</p> <p>Year completed 2012 GFA (sqm) 11,310</p>	 <p>10 Changi North Way</p> <p>Year completed 2011 GFA (sqm) 12,019</p>	 <p>26 Changi North Rise</p> <p>Year completed 2011 GFA (sqm) 6,000</p>	 <p>20-23 Rochester Park</p> <p>Year completed 2016 GFA (sqm) 14,516</p>
 <p>16 Changi North Way</p> <p>Year completed 2008 GFA (sqm) 11,320</p>	 <p>85 Tuas South Avenue 1</p> <p>Year completed 2008 GFA (sqm) 10,610</p>	 <p>12 Changi North Way</p> <p>Year completed 2005 GFA (sqm) 23,949</p>	 <p>80 Boon Keng Road (Phase 2)</p> <p>Year completed 2014 GFA (sqm) 4,936</p>

+ recent acquisitions of:

- Paya Lebar J'Forte Building



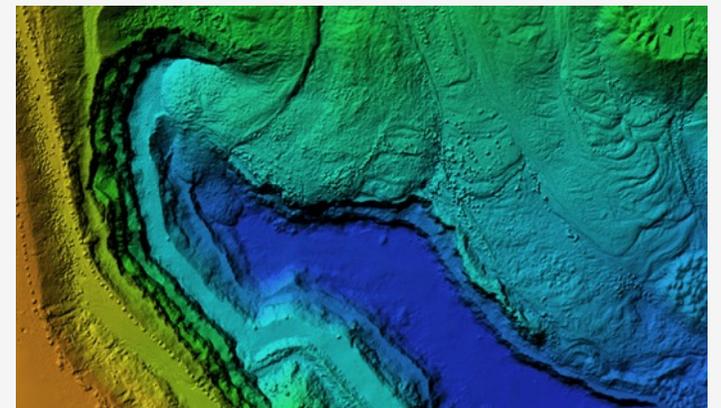
- 26 Tai Seng Street





2.1. Boustead's geo-spatial technology business

- Boustead Singapore is the exclusive distributor for ESRI (Environmental Systems Research Institute) for 8 countries in Southeast Asia and Australia: Singapore, Malaysia, Indonesia, Australia, Bangladesh, Brunei, PNG and Timor-Leste.
- Boustead one of the top five distributors in ESRI's network. Other ESRI JV partners include SoftBank for Japan, Bentley Systems for Korea and EOH Group for Southern Africa.
- Boustead owns 88.2% of its two geo-spatial subsidiaries while ESRI owns the remaining 11.8% in each: ESRI South Asia (35% of revenue, of which half from Singapore) and ESRI Australia (65% of revenue). For example, ESRI has been chosen by the Australian government to serve as the backbone of the Australian Spatial Data Infrastructure.
- These two subsidiaries have a 45-year track record of working with ESRI. The distribution contracts are renewable every 3 years. In ESRI's history, these distribution contracts are almost never terminated. In Boustead's target markets, it has roughly 13,000 customers across both governments and private organisations.
- The product is essentially an operating system, which can be customised according to customer demand. That's where Boustead Singapore comes in – it's a service organisation working closely to serve customers right.
- Recurring revenue accounts for roughly half of revenues as maintenance is required. Specifically, ESRI South Asia and ESRI Australia charge for distribution of the software on a time basis, consulting services, training and after-sales support.





2.2. Introduction to ESRI

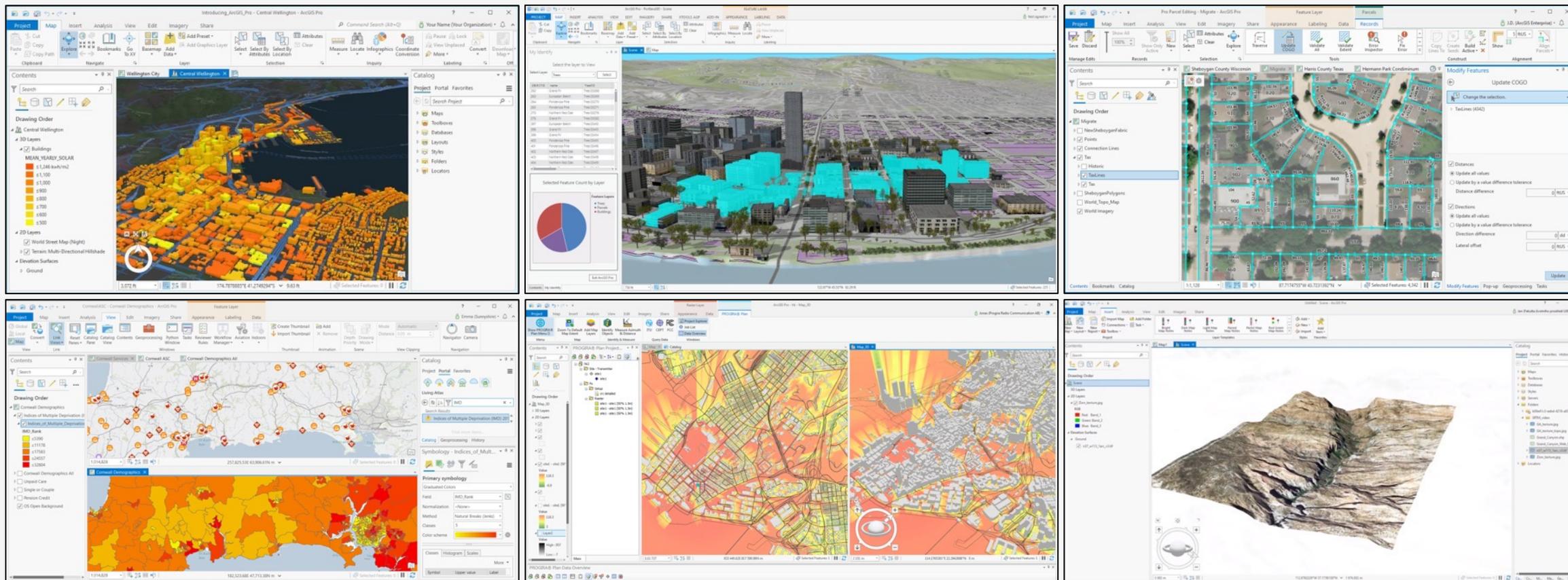
- ESRI (“Environmental Systems Research Institute”) is the world leader for the geographic information systems, with a 43% market share globally serving 350,000 organisations.
- Geospatial software is used to manage infrastructure, natural resources, military operations, and more. Used by 13,000 governments, militaries and private organisations across the world. 80% of revenues comes from government entities and the remaining 20% from the private sector, specifically oil & gas, mining, telecom, utilities and financial services companies. ESRI’s technology was used to create COVID-19 dashboards, for example.
- This software platform can be compared to a much higher definition version of Google Maps, though much more customizable and with far greater accuracy. And it offers complete data protection, something that’s important for governments who don’t want to share sensitive data. The maps offer information on customer profiles, purchasing power, For example, in Singapore, the Urban Redevelopment Authority uses the ESRI GIS platform in its strategic planning since 1995.
- Google Maps is used by consumers to get directions and to get satellite images. ESRI’s ArcGIS, on the other hand, is a professional-grade platform with more advanced functionality for data analysis and visualisation, and is also more customizable. Some of the dimensions covered are demographics, purchasing power, types of property, sales revenues for different products, natural resources, types of infrastructure assets, transport routes, flight traffic data, store locations, and more.



Founder of ESRI “Jack Dangermond”, from Redlands California



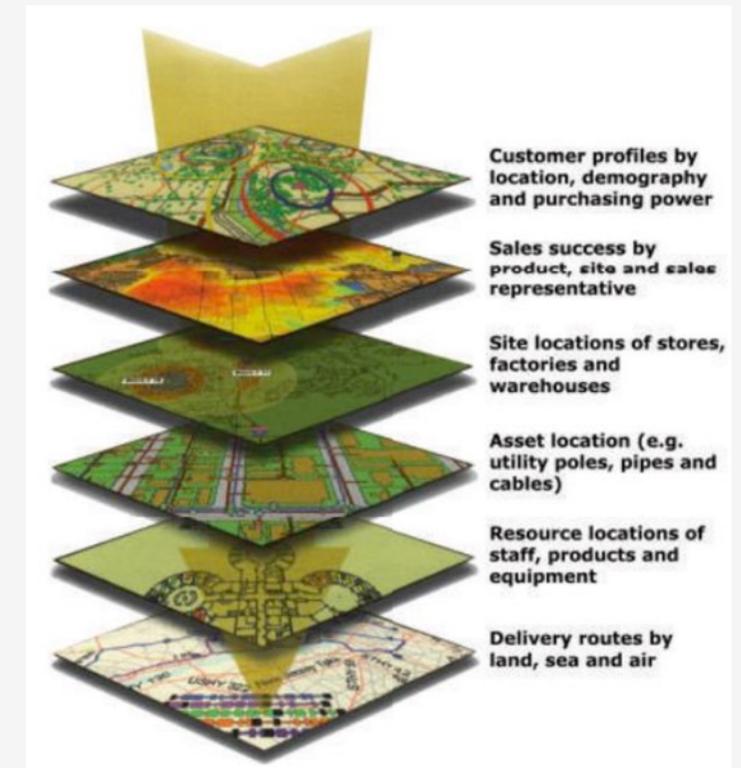
2.3. Screenshots from ESRI's ArcGIS software platform



2.4. How ESRI's ArcGIS platform is being used by customers



- **Governments:** Governments at different levels use ESRI's systems to safeguard citizens and public property in case of emergencies such as natural and human-induced disasters. John Hopkins used ESRI's system to visualise the COVID-19 pandemic, for example. Government can also use it to plan cities, for example to help Singapore's URA develop its 5-year plans.
- **Businesses:** Customised platforms with information on sales, customers, inventory, demographics, mailing lists with visualisation features to help make the right decisions. Retailers for example use the platform to decide on where to place their stores and warehouse infrastructure.
- **Natural resources:** Oil & gas exploration companies, land owners and mining companies use the software to make assessment of whether new projects are feasible, taking into account the landscape, environmental issues, access to infrastructure, etc. For example, constructors of a natural gas pipeline could use ESRI's software to figure out the optimal path of the pipeline, geographically speaking.





3. Boustead's energy services business

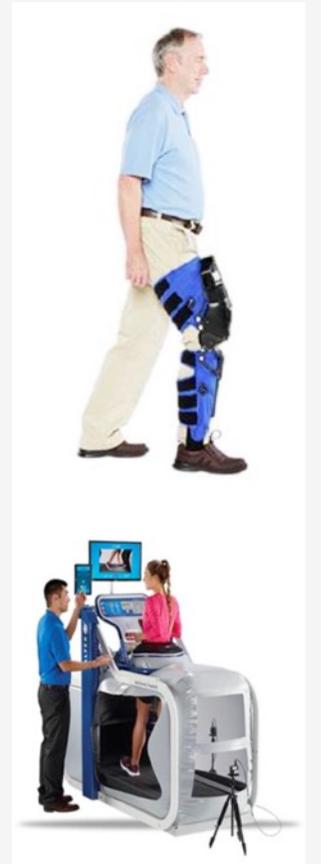
- The energy engineering services segment targets both the upstream and downstream oil & gas sectors:
 - Downstream (65%): Done via wholly-owned subsidiary Boustead International Heaters (BIH). Engineering services to build direct-fired process heater systems for distillation of crude oil as well as waste-heat recovery units. Has installed thousands of process heater systems globally in refineries, petrochemical plants, gas processing plants, etc. The demand for waste-heat recovery units are driven by environmental policies pushing companies to make use of gas that would otherwise be flared. Customers include BASF, BHP, Petronas and Saudi Aramco.
 - Upstream (20%): Done through the 94.4% owned subsidiary Boustead Controls & Electronics (BC&E), which does design, engineering and supply of process control systems, wellhead control systems and control & safety shutdown systems for oil & gas companies. These systems help control the wellhead on oil rigs and FPSOs. BC&E primarily operates in the Middle East and Asia Pacific. Its customers include Saudi Aramco and CNOOC.
 - Water & wastewater (15%): Done via wholly-owned Boustead Salcon Water Solutions (BSWS). Constructs water and wastewater treatment plants in Asia Pacific and the Middle East. Customers have included BP and Petronas.
- The energy services segment suffered immensely between 2015 and 2020 due to the low oil price and resulting weak capital expenditures on new equipment among the majors.





4. Boustead's new healthcare business

- In 2018, Boustead Singapore acquired White Rock, a provider of medical solutions for chronic diseases and mobility issues.
- It's using White Rock as a platform to grow a healthcare solutions business, built around:
 - **AlterG Bionic Leg**: an exoskeleton to enable patients with mobility issues.
 - **AlterG anti-gravity treadmill**: promoting faster recovery during rehabilitation
- Customers are primarily hospitals, nursing homes and outpatient centres.
- The business is loss-making and the losses are accelerating. Part of the reason has been the unwillingness to spend on money on rehabilitative care during COVID-19. For that reason, Boustead Singapore sold its previous sleep apnea business at the end of FY2022, and has vowed to restructure the business further.



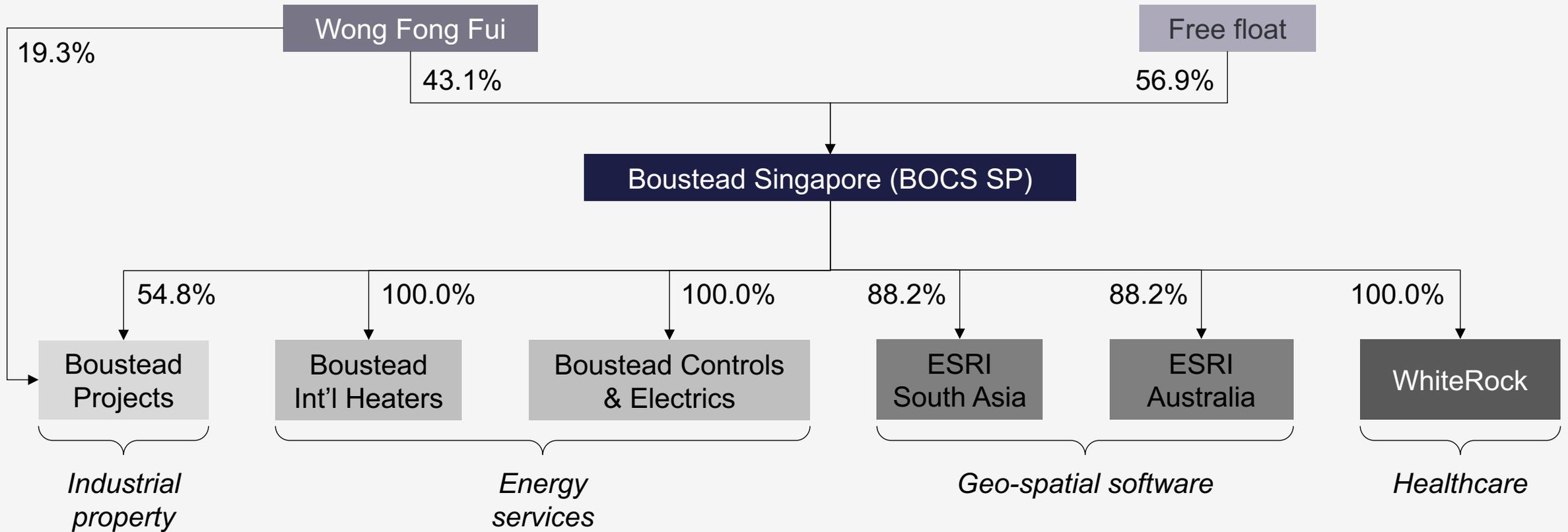
Boustead Singapore has a storied history



- Boustead Singapore was originally a British trading company founded by Edward Boustead in **1828**. It specialized in the import and export of tin, spices, medicinal herbs, silks and teas in Southeast Asia. Early on, it became one of the largest trading houses, and an agent for Hongkong and Shanghai Bank in Singapore, offering banking services to local customers.
- In the late **1880s**, Boustead introduced rubber trees into Malaysia and became a large rubber plantation owner, as well becoming an agent for 49 other plantations.
- In **1892**, Boustead entered the bulk oil trading business by setting up the Shell Trading and Transport Company, which later became oil major Royal Dutch Shell.
- By **1899**, Boustead had also become a leading tin producer through a smelting facility on Brani island in Singapore.
- In the **1860s**, Boustead entered the shipping and insurance business, serving 1,000 vessels for 60 different shipping lines handling 500,000 tonnes of goods and commodities each year.
- Boustead also became a distributor of brands such as Cadbury's, Del Monte, Bailey's, Bacardi, Gillette, Hennessy, Johnnie Walker, Ovaltine, Nestlé, etc.
- After Singapore ceased to be a British colony in **1957**, Boustead was eventually split up into three separate companies: one for Singapore, one for the UK and one for Malaysia. Most of the plantation and tin assets went to the Malaysian subsidiary, which has now spawned companies such as Boustead Holdings (BSTEAD MK), Boustead Plantations (BPLANT MK) and Boustead Heavy Industries (BHIC MK).
- The Singapore-subsiidiary Boustead Singapore (BOCS SP) remained focused on trading and was listed on the Singapore Stock Exchange in **1975**.
- In **1996**, Fong Fui ("FF") Wong acquired a 65.4% stake in Boustead Singapore, valuing the business at SG\$80 million. He doubled down on the company's key focus on infrastructure engineering services, its geo-spatial technology with ESRI as well as industrial property.



Corporate structure



Boustead Singapore is run by legendary businessman FF Wong



- Since 1996, Boustead Singapore has been run by **Fong Fui (“FF”) Wong**, who is now 77 years old and remains Chairman and CEO. He was born on a rubber plantation in Johor Bahru, taught himself English and managed to get himself accepted in a secondary school in Malaysia. He began as a chemical engineer in the oil & gas industry, then started various engineering and construction companies before being hired to turn around food conglomerate QAF, which he did successfully from 1988 to 1996 before selling it to the Salim Group. He is widely seen as responsible creating the success of QAF’s Gardenia brand. Flush with cash from the sale of QAF, he acquired Boustead Singapore. Wong was also involved in the start-up and privatisation of Myanmar Airways between 1993 and 1998. He has a degree in chemical engineering from University of New South Wales in Australia.
- It’s still unclear who will succeed FF Wong as Boustead’s CEO, but the frontrunner seems to be his oldest son **Yu Loon Wong**, who has been Deputy CEO since 2016. He began in the corporate planning department and then Group Investment Director, before taking on his current role assisting FF Wong in overseeing business development for the group. He is now 47 years old. His degree is in law and commerce (accounting), also from the University of New South Wales, and also holds a CFA.
- Younger son **Yu Wei Wong** is Deputy Chairman of Boustead Projects, Boustead Singapore’s real estate arm. He’s been in charge of growing the real estate business, including on the investment side while Managing Director Thomas Chu continues to be the de facto head of Boustead Projects as well as Boustead Singapore CIO. He has a bachelor’s degree in civil engineering, also from the University of New South Wales.



FF Wong



Yu Loon Wong



Yu Wei Wong

FF Wong is a master businessman and capital allocator



- On dealing with COVID-19: *“We intend to exercise measured and purposeful caution, preserving cash and implementing prudent cost management measures – including a Group-wide salary freeze. In addition, our capital deployment will undergo more rigorous evaluation, delivered via a **strict, risk-based approach.**”*
- On adding value to stakeholders: *“The concept of creating shared value was popularised by world-renowned Harvard Professor Michael Porter ... **creating shared value is not a zero-sum game**, nor is it about sharing the value already created through a redistribution approach.”*
- On being risk-averse: *“**To borrow some wise words from world-renowned investor, Seth Klarman,** “... most investors are downplaying risk and this never turns out well.” For all the money that has been thrown at resolving the world’s financial problems, the results look truly dismal.”*
- A realistic view on acquisitions: *“**90% of all start-ups will fail** and two-thirds may never generate a profit for various reasons including poor leadership and management, value propositions, business models and execution. **This will not deter us from exploring or investing in potential technological innovators but we do have to apply a strict risk-based approach** to acquisitions and investments”*
- On the need to deal with problems: *“The sale of the sleep care business under the division is our first step in the rationalisation of this division, which we have come to realise has too many fragmented entities, product lines and services. **Changes are afoot to bring this division to the fullest potential.**”*

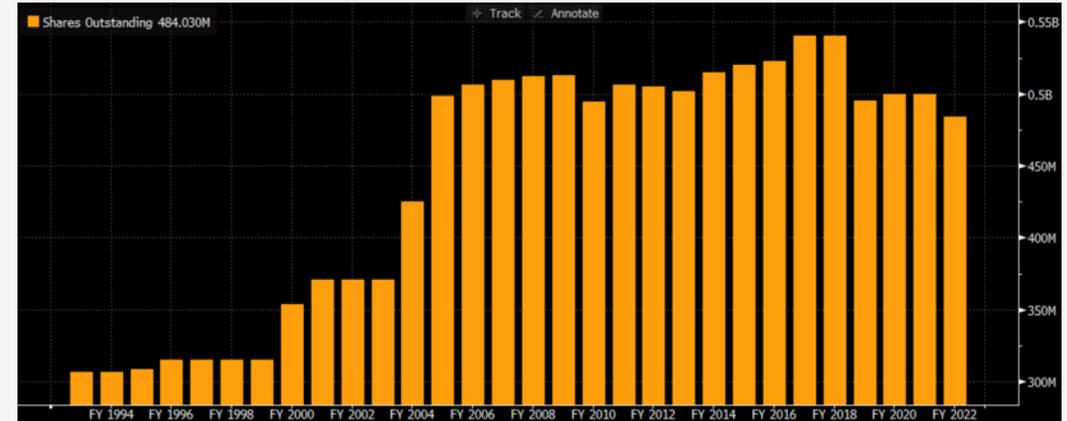
Capital allocation and corporate governance



- Boustead Singapore's capital allocation has been decent. They care about the return on investment for any new undertaking. They buy back shares and pay out 50% of earnings as dividends.
- The company has undertaken a number of major transactions over time:
 - In 2007, it sold most of its stake in **EasyCall**, an education business in China to Raffles Education, making around US\$8 million.
 - In 2012, it acquired an AU\$18 million stake in manganese ore trading company **OM Holdings**, and quickly flipped it within 2 years.
 - The 2015 spin-off of **Boustead Projects**, and the recent privatisation offer for the same company. The offer was made a large discount to NAV so it's unclear that it'll go through.
 - **Whiterock InCorp** in 2018 for SG\$19 million or roughly
 - The sale of **Boustead Salcon Water Solutions** in 2020 for a total consideration of \$10 million including debt. Probably reasonable given that the business was loss-making.
- There's been an increasing number of buybacks since 2018, which has caused the share count to shrink. The buybacks have continued all the way until early 2023. But the numbers have been relatively modest, and management communication suggests they are not weighing new investments against the IRR on share buybacks.
- Since 2020, FF Wong has started talking about sharing value across all stakeholders, a departure from the past that may or may not signal a change in how they view shareholder wealth maximisation.

Effective Action Type	Ticker / ID	Summary
02/06/23 Acquisition	BOCS SP	Target: Boustead Projects Ltd, Sought: 45.13%
12/30/20 Divestiture	BOCS SP	Unit: Boustead Salcon Water Solutions Pte Ltd, Seller: Boustead Singapore Ltd
12/05/19 Acquisition	BOCS SP	Target: Beijing Echo Health Co Ltd, Sought: 100.00%
12/05/19 Acquisition	BOCS SP	Target: Intell Innovation Health Technology Co Ltd, Sought: 80.00%
04/26/19 Acquisition	BOCS SP	Target: Controls & Electrics Pte Ltd
04/26/19 Divestiture	BOCS SP	Unit: Controls & Electrics Pte Ltd, Seller: Boustead Singapore Ltd
06/25/18 Acquisition	BOCS SP	Target: Whiterock InCorp Pvt Ltd, Sought: 100.00%
02/16/16 Acquisition	TEG AU	Unit: Triangle Energy Ltd, Seller: Triangle Energy Global Ltd
04/22/15 Spin-off	BSTGF US	Spin-off: Boustead Projects Ltd(BOCJ SP)
04/22/15 Spin-off	BOCS SP	Spin-off: Boustead Projects Ltd(BOCJ SP)
02/17/15 Acquisition	BOCS SP	Target: Mason Energy Ltd, Sought: 20.00%
10/21/14 Acquisition	BOCS SP	Target: PT Mustika Petrotech Indonesia, Sought: 80.00%
08/28/14 Joint Venture	BOCS SP	Forming: Boustead Development Partnership, Country: SINGAPORE
10/02/13 Acquisition	BOCS SP	Target: Property at 36 Tuas Road/Singapore, Sought: 100.00%
03/16/13 Acquisition	BOCS SP	Target: Kinnon Green Pte Ltd, Sought: 50.00%
02/29/12 Acquisition	BOCS SP	Target: OM Holdings Ltd, Sought: 9.02%
12/31/10 Acquisition	BOCS SP	TERMINATED - Target: Big Box Pte Ltd, Sought: 60.00%
06/22/10 Divestiture	BOCS SP	Unit: Certain Assets, Seller: Boustead Singapore Ltd
06/15/10 Acquisition	BOCS SP	TERMINATED - Target: China Everbright Water Ltd

Source: Bloomberg



Source: Bloomberg

Competitive advantages

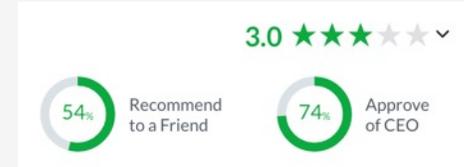


- **High switching costs:** The geo-spatial business is extremely sticky with recurring revenue with some pricing power. Governments in particular value software that is inter-operable across departments. The software becomes embedded in the processes of many government agencies. The relationship with ESRI is also sticky. Industrial property tenants are also unlikely to move, given that the buildings were mostly customised for them.
- **Brand name and reputation:** Boustead has a storied history, and the brand name might open doors. I suspect the brand might have helped the geo-spatial business when ESRI tried to enter Asian markets in the 1970s. Boustead was also ranked 40/1,700 best employer in Singapore in 2021, suggesting a strong reputation within the city-state.
- **Genius CEO:** Say what you want about FF Wong but his track record is incredible. He has created enormous value for shareholders since he took over in 1996, both on the business side with strong cost control and through capital allocation.



Hardware tech company Razer's SEA HQ in Singapore, which is now owned by the Boustead Industrial Fund

Glassdoor reviews: Boustead is a lean operation



Positives

- *“Supportive and open culture”*
- *“Values technology”*
- *“Flexible and supportive CEO. Cohesive sales team”*
- *“Very good environment, hope, chance, nice”*
- *“We all speak same language when come to work since all are tech savvy here.”*
- *“Things move fast here”*
- *“Flexible hours as long as deadlines were met”*
- *“Family like culture, and environment.”*
- *“Good bonus if you can last more than 2 years and establish good relationships with your superior.”*

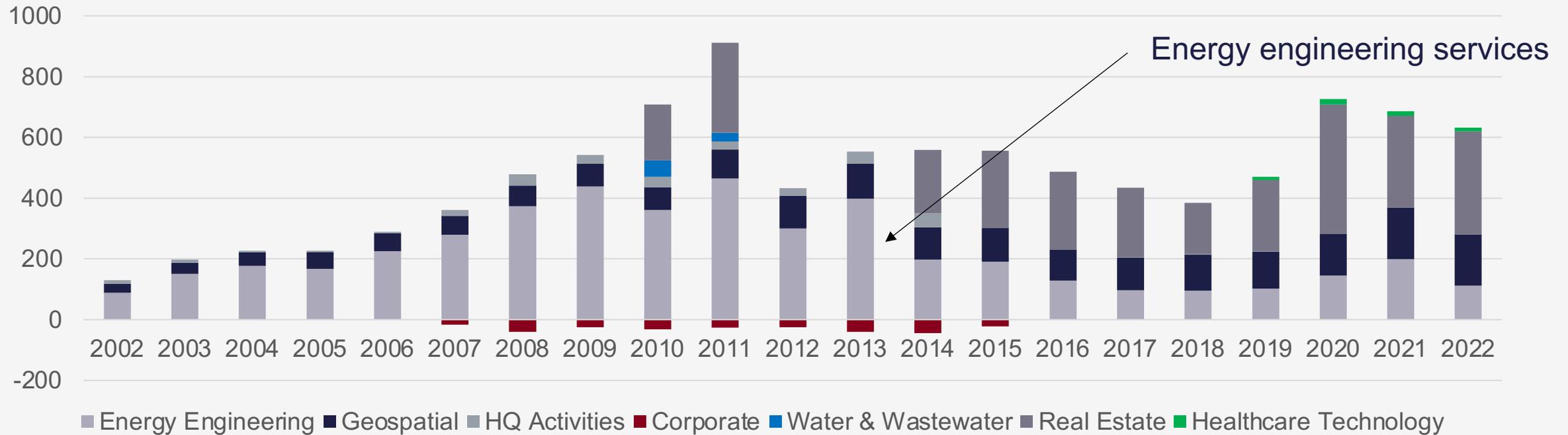
Negatives

- *“Lack of man power and support staff.”*
- *“Culture shock to seasoned professionals who have worked in other companies in the same industry for a long time.”*
- *“Little guidance provided to fresh trainees / engineers.”*
- *“Poor decision making that favours the bosses who are family members”*
- *“Extremely lean site management staff, typically 1 site manager and 1 site engineer.”*
- *“Hardworking and dedicated colleagues are overloaded and get disillusioned with the lack of improvement, and leave. Stress levels were extremely high.”*
- *“No water dispenser on site, so drink tap water.”*

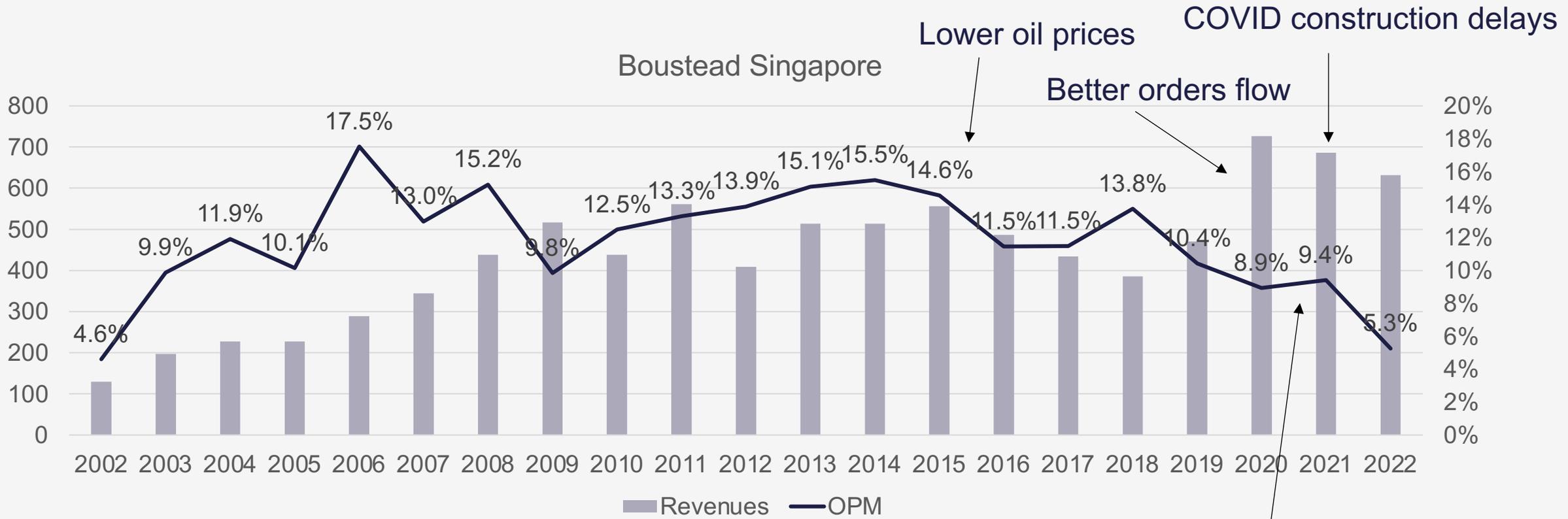
The energy engineering segment has been the only real headwind



Revenue split by segment



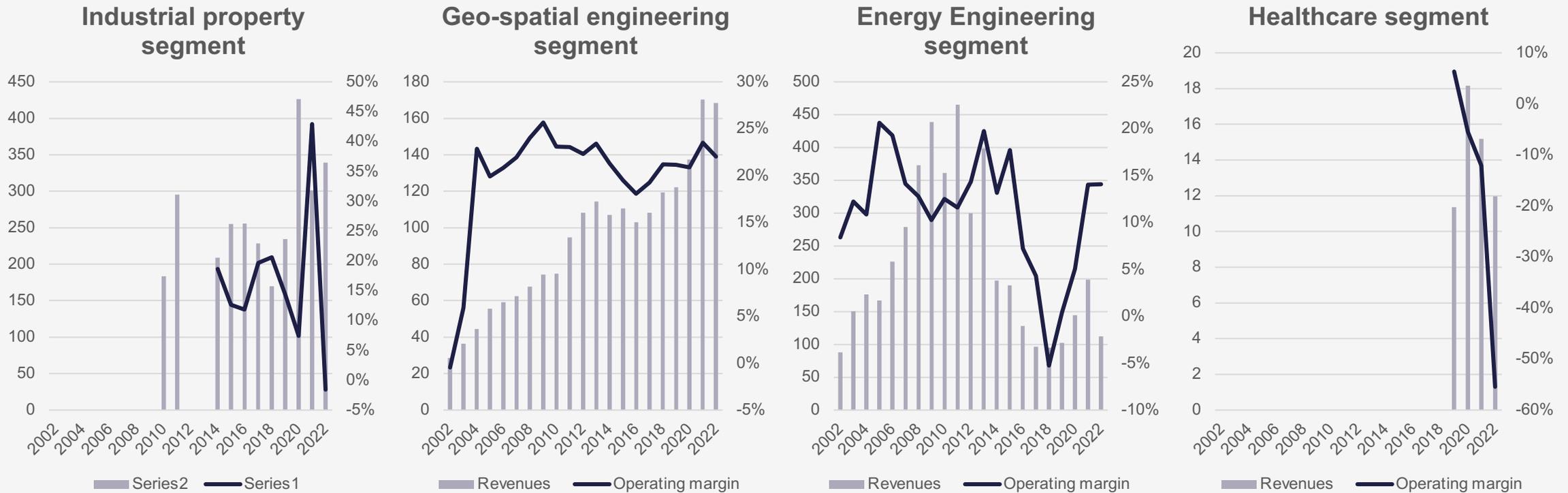
Boustead's revenues are just fine, but the issue has been weakening margins due to the energy engineering segment



Source: TIKR

Inflation pressures in Boustead Projects

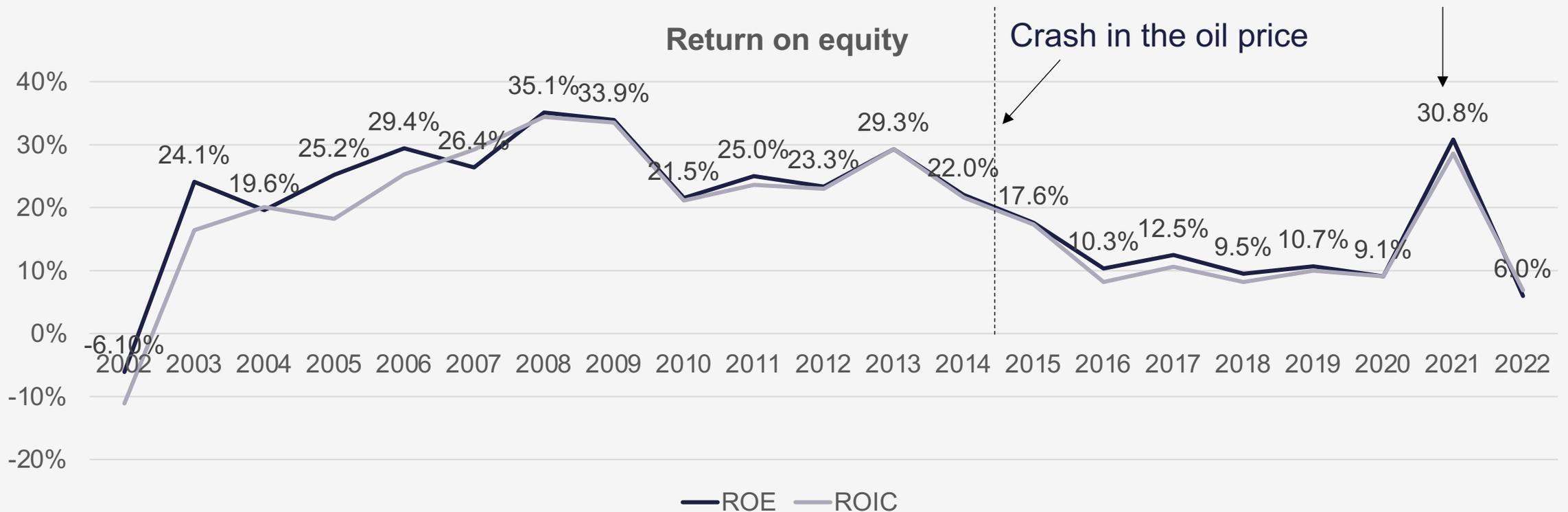
The industrial property geo-spatial businesses are ticking along. Energy engineering segment has turnaround potential. Healthcare looks messy.



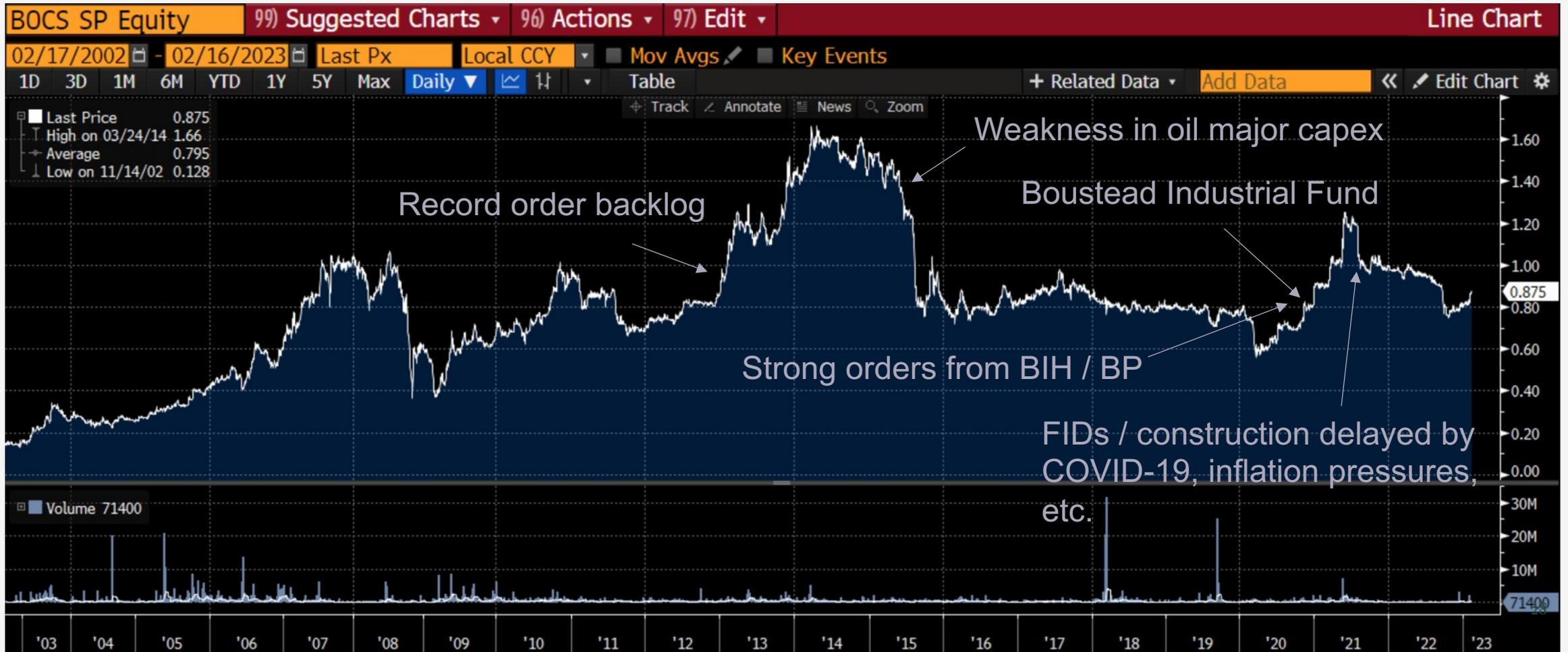
For a large part of its history, Boustead Singapore has been among the highest-ROE businesses in Singapore



One-off gains from the sale of property to the Boustead Industrial Fund



The shares have remained rangebound for the past 10 years



Source: Bloomberg



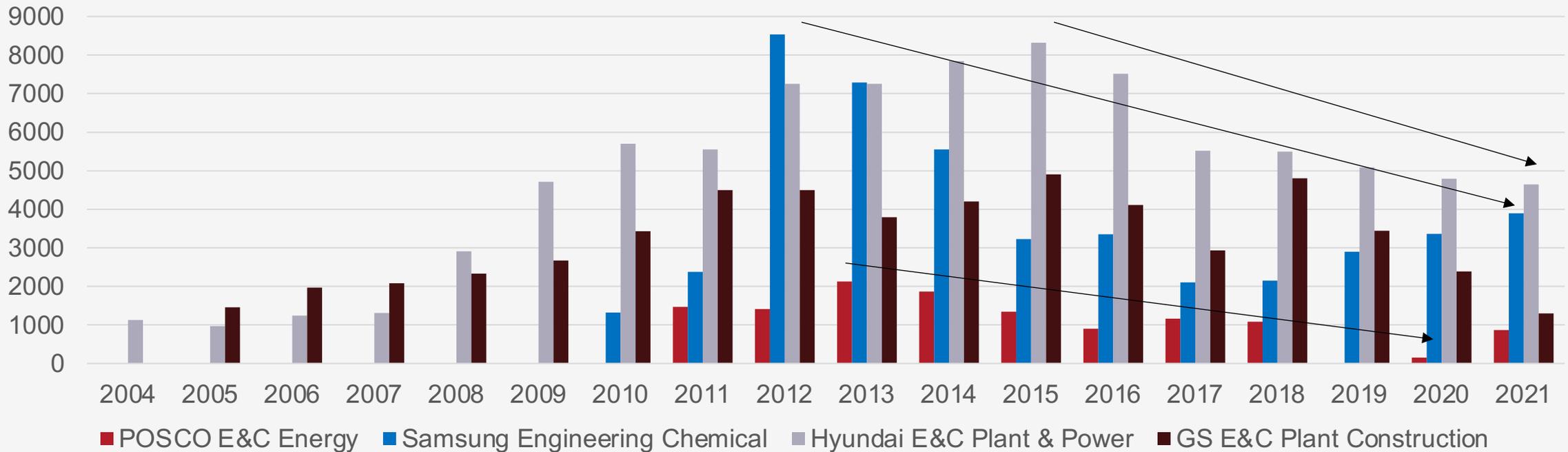
Long-term industry trends

1. **Industrial property:** There's a great interest among Chinese and Hong Kong companies to relocate to Singapore. Boustead Singapore's subsidiary Boustead Projects is well-placed to capitalise on this trend.
2. **Geo-spatial consulting:** Consulting firm Global Markets Insights expected the GIS market in the Asia Pacific to grow at a 15% rate between 2018 and 2014. That would suggest secular growth. Such growth is driven by rising urbanization and government efforts to plan cities more intelligently.
3. **Energy services:**
 1. Boustead's energy segment is highly dependent on oil & gas capex, both downstream and upstream. Even though oil prices primarily affect the profitability of upstream oil & gas, the investments are typically done by the same oil majors and national oil companies. The weakness in oil prices and the uncertainty about future demand has led to weak capex.
 2. Boustead's energy segment is highly reliant on the Korean E&Cs. Their order flow has also been weak, especially in their energy and plant construction segments.
 3. But now that oil companies are enjoying record free cash flows from high oil prices, the conditions for a rebound in new project FIDs are better than in decades.
4. **Healthcare:** Aging populations in much of the world serves as a tailwind for Boustead's healthcare segment.

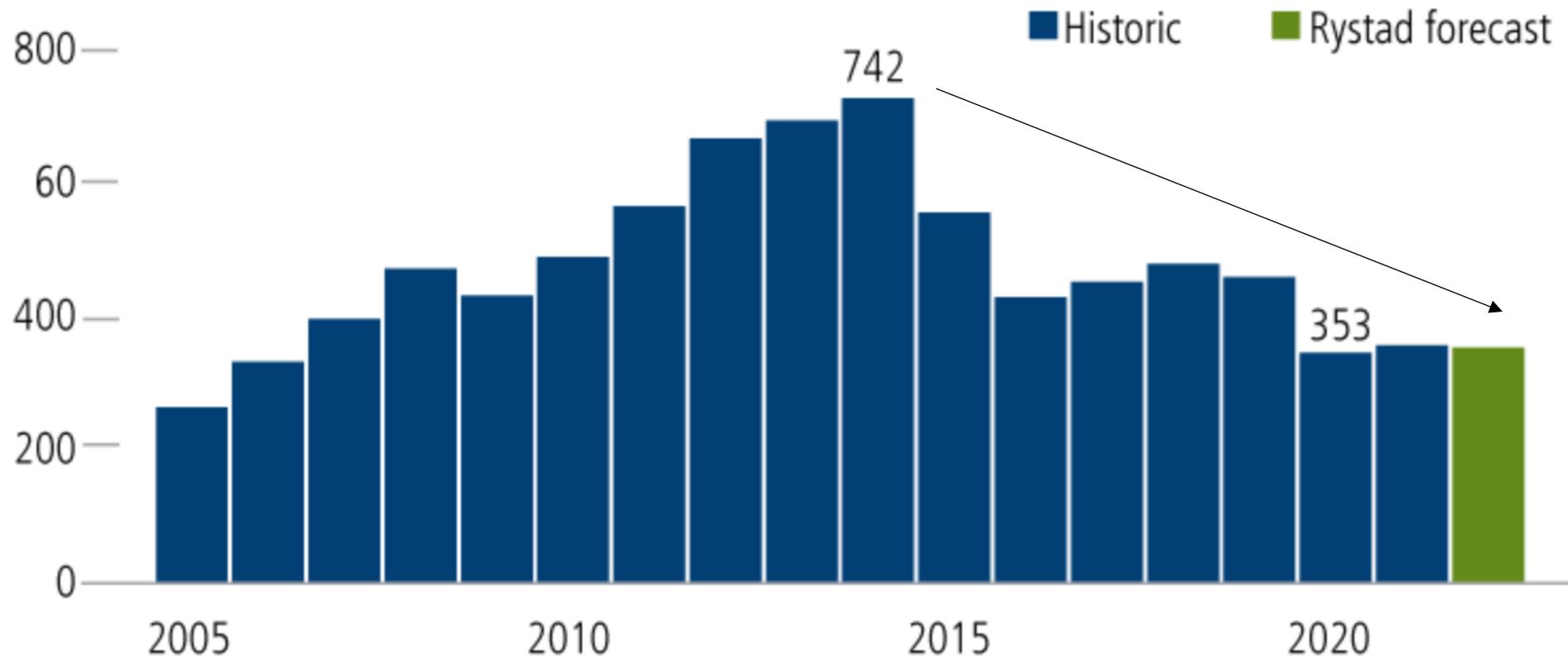
Korean engineering companies have also done poorly since 2015, so the weakness in Boustead's energy segment is not unique



Korean E&C plant construction & energy segments

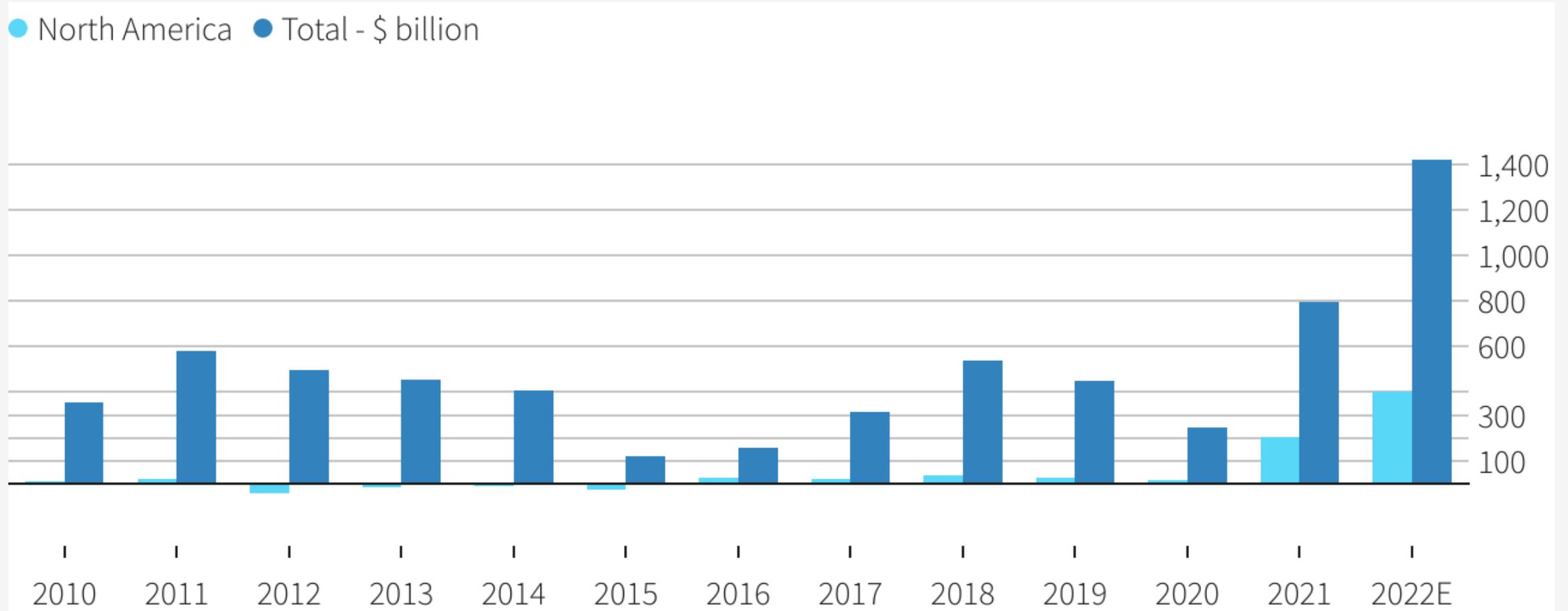


Upstream oil & gas capex has remained weak through 2022



Source: Morgan Stanley using data from Rystad Energy and Morgan Stanley Research.

Oil & gas producers saw record free cash flow in 2022... the seeds have been sown for capex to go up again



Offshore oil & gas capex is likely to recover in 2022 and 2023



Exhibit 2: Global offshore capex-at-FID by project FID year, 2010A-23E

We see global offshore capex-at-FID growing 10-15% y/y in 2022 and then $\geq 20\%$ y/y in 2023, even after heavily risking many projects in our overall project pipeline



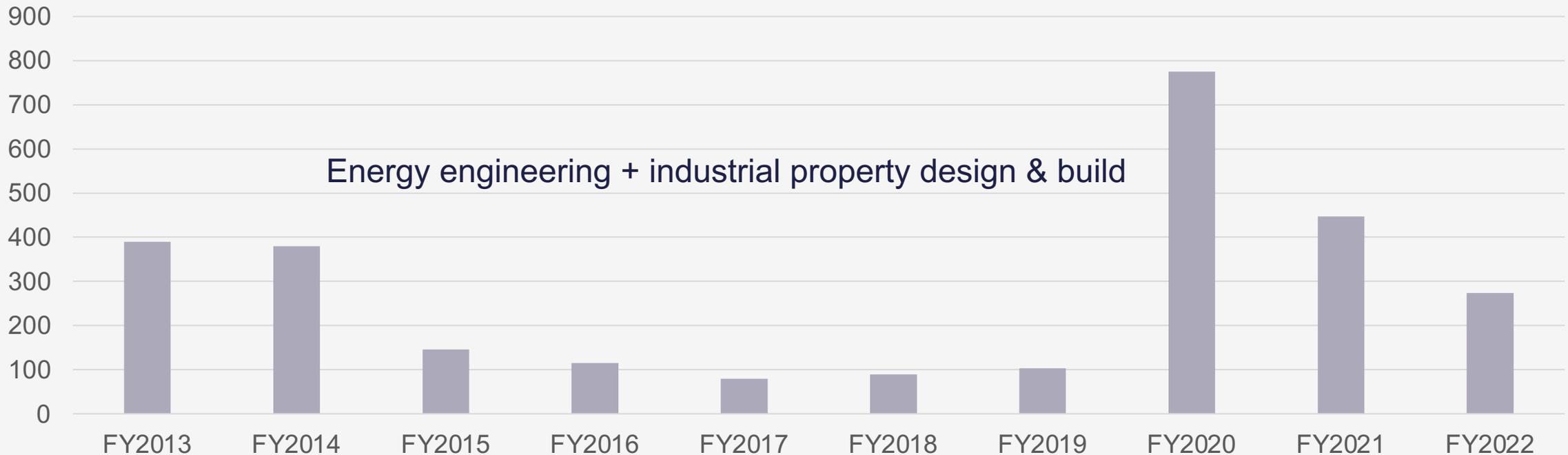
Source: Wood Mackenzie, Rystad, Company data, Upstream, BofA Global Research estimates

BofA GLOBAL RESEARCH

Boustead Singapore's order backlog shot up in 2020 after the crash in oil & gas capex from 2014 onwards but has weakened recently



Group-wide order backlog



What will change for Boustead Singapore?



- 1. M&A:** Group CIO Keith Chu has signalled that the team is looking to deploy the cash into clever acquisitions. Most likely into niche tech products in line with the company's overall strategy:
"To focus on niche transformative solutions to support sustainable shared growth and improve quality of life."
- 2. Geo-spatial:** The geo-spatial segment should continue growing for the foreseeable future. Boustead has given guidance of high-single digit revenue growth for the next decade or more, with great conviction.
- 3. Engineering services:** The energy services business is contract base, and therefore highly cyclical. Oil major free cash flow is a leading indicator of capex, and capex are related to Final Investment Decisions (FIDs), which lead to order inflow for Boustead. But in the short-term, the order book remains weak.
- 4. Industrial property:** More assets will be divested to the Boustead Industrial Fund. And the design & build segment will benefit from the resumption in construction activity in Singapore after the borders opened up, and COVID-19 social distancing restrictions were eased in calendar year 2022.
- 5. Healthcare:** Management has clearly signalled that it wants to restructure the healthcare business, first by exiting the sleep apnea segment but also streamline the business further. It's clearly not accepting current losses.

The potential privatisation of Boustead Projects



- On 7 February, Boustead Singapore offered SG\$0.90 for the shares it currently does not own of Boustead Projects. The offer represents a +8% premium to the previous day's share price.
- It justified the offer by saying that it wanted to simplify the organisational structure and help allocate resources effectively across the business.
- Sell-side analysts value Boustead Projects at an NAV of SG\$1.8/share. The book value per share is SG\$1.27/share. These two estimates suggest that the offer is at a 29-50% discount to intrinsic value.
- The Securities Investors Association of Singapore (SIAS) is appealing to Boustead Singapore to improve on the SG\$0.90/share offer.
- In Singapore, the target will appoint an independent financial adviser to opine on whether the offer is fair. And then, 75% of unaffiliated shareholders will then have to approve the offer and the subsequent delisting.
- Most likely, the final offer will end up closer to SIAS's suggested level of SG\$1.27/share, which it considers fair.

BOUSTEAD
Projects

Company Announcement

**VOLUNTARY UNCONDITIONAL OFFER
BY BOUSTEAD SINGAPORE LIMITED**

SINGAPORE, 7 FEBRUARY 2023

1) **Introduction**

The Board of Directors (the "Board") of Boustead Projects Limited (the "Company", and together with its subsidiaries, the "Group") wishes to refer shareholders of the Company ("Shareholders") to the announcement (the "Offer Announcement") made by Boustead Singapore Limited (the "Offeror") on 6 February 2023 in relation to the voluntary unconditional general offer (the "Offer") for all the issued and paid-up ordinary shares (excluding treasury shares) (the "Shares") in the capital of the Company, other than those Shares already owned, controlled or agreed to be acquired by the Offeror, its related corporations and their respective nominees and the parties acting in concert with it as at the date of the Offer in accordance with Rule 15 of the Singapore Code on Take-overs and Mergers (the "Code").

Further details on the terms and conditions of the Offer are set out in the Offer Announcement, a copy of which is attached to this announcement. Shareholders are encouraged to refer to the full text of the Offer Announcement. Neither the Company nor the Board was involved in the preparation of the Offer Announcement and they do not take any responsibility for the same.

Boustead Singapore has historically traded at a P/B of 1.6x and P/E of 10.4x



Source: Bloomberg

Most Boustead Singapore's B2B software peers trade at 20x+ P/Es



Geospatial peers (2023e)	Ticker	Region	Mkt cap (US\$m)	P/B	EV/Sales	EV/EBIT	P/E	Div yield
Boustead Singapore	BOCS SP	Singapore	311	0.9x	0.6x	4.4x	11.9x	4.6%
Silverlake Axis	SILV SP	Singapore	686	1.5x	3.1x	10.1x	133.8x	2.2%
Fidelity National Information	FIS US	United States	40,023	1.2x	4.0x	14.5x	11.2x	3.0%
Fiserv	FISV US	United States	74,768	2.2x	5.4x	14.9x	16.1x	0.0%
Infosys	INFO IN	India	80,779	8.7x	4.4x	20.9x	27.3x	2.2%
Oracle Financial Services	OFSS IN	India	3,355	3.9x	4.0x	9.5x	14.9x	6.6%
SAP	SAP GR	Germany	146,045	3.1x	4.4x	17.0x	21.0x	1.8%
Temenos	TEMN SW	Switzerland	5,648	7.8x	6.4x	23.4x	25.6x	1.4%
Tata Consultancy Services	TCS IN	India	157,861	13.2x	5.6x	23.0x	30.8x	2.7%
Average ex-Boustead			63,646	5.20x	4.7x	16.6x	35.07x	2.5%
Median ex-Boustead			57,396	3.48x	4.4x	15.9x	23.3x	2.2%

Energy services peers generally trade at single digit P/E multiples



Energy services peers (2023e)	Ticker	Region	Mkt cap (US\$m)	P/B	EV/Sales	EV/EBIT	P/E	Div yield
Boustead Singapore	BOCS SP	Singapore	311	0.9x	0.6x	4.4x	11.9x	4.6%
John Wood Group	WG/ LN	United Kingdom	1,182	0.3x	0.6x	18.1x	16.0x	0.5%
Solaris Oilfield Infrastructure	SOI US	United States	489	1.3x	1.1x	5.9x	8.2x	4.0%
Select Energy Services	WTTR US	United States	979	1.0x	0.6x	6.3x	7.0x	2.3%
Subsea 7	SUBC NO	Norway	3,984	1.0x	0.8x	22.2x	32.2x	1.2%
Average ex-Boustead			1,658	0.88x	0.8x	13.1x	15.8x	2.0%
Median ex-Boustead			1,080	0.98x	0.7x	12.2x	12.1x	1.8%

Industrial property peers trade around 1.1x book, though with most of them offer far better dividend yields



Industrial property peers (2023e)	Ticker	Region	Mkt cap (US\$m)	P/B	EV/Sales	EV/EBIT	P/E	Div yield
Boustead Projects	BOCJ SP	Singapore	229	0.8x	0.8x	9.7x	18.2x	1.0%
Frasers Logistics Trust	FLT SP	Singapore	3,469	1.0x	14.4x	21.3x	20.8x	5.8%
Mapletree Logistics Trust	MLT SP	Singapore	6,039	1.1x	17.6x	23.7x	20.0x	5.3%
Mapletree Industrial Trust	MINT SP	Singapore	4,777	1.3x	14.2x	21.3x	17.4x	5.9%
Keppel DC REIT	KDCREIT SP	Singapore	2,580	1.5x	15.8x	20.0x	18.8x	5.1%
CapitaLand Ascendas REIT	AREIT SP	Singapore	8,826	n.a.	n.a.	n.a.	17.6x	5.4%
Frasers Property	FPL SP	Singapore	2,635	0.3x	6.8x	21.0x	16.3x	3.4%
ESR Group	1821 HK	Hong Kong	8,415	0.9x	12.2x	14.6x	13.2x	1.6%
Puradelta Lestari	DMAS IJ	Indonesia	534	1.3x	3.7x	6.6x	7.4x	9.0%
Average ex-Boustead			4,659	1.06x	12.1x	18.3x	16.43x	5.2%
Median ex-Boustead			4,123	1.12x	14.2x	21.0x	17.5x	5.4%

A rudimentary SOTP provides a Boustead Singapore NAV/share of about SG\$2.0/share, but it could go higher if BP is acquired below its own NAV



Boustead Projects	Justification	Value (SG\$m)	Boustead Singapore	Method	Metric (SG\$m)	Stake	Multiple	Value (SG\$m)
Leasehold portfolio (100% owned)	6.5% cap rate	85	Real estate	SOTP	664	54.8%	n.a.	364
Leasehold portfolio (through JVs)	Ind. appraiser	75	Geo-spatial	EBIT	37	88.2%	15.0x	491
Equity / debt in BIF	Cost + par value	110	Energy	Mid-cycle EBIT	28	98.9%	8.0x	224
Available-for-sale investments	Book value	32	Healthcare	Sales	12	100.0%	1.0x	12
Boustead Projects design & build business	8x pre-COVID EBIT	159	<u>Gross asset value</u>					<u>1,091</u>
<u>Gross asset value</u>		<u>461</u>	Parent net cash					185
Net cash		203	<u>Net asset value</u>					<u>1,275</u>
<u>Net asset value</u>		<u>664</u>	Holdco discount					25%
Shares		313	<u>Adj NAV</u>					<u>957</u>
<u>NAV/share</u>		2.12	Shares					477
			<u>Adj NAV/share</u>					<u>2.00</u>

A simple projection puts the P/E in the mid-single digits. But everything hinges upon a recovery of the energy services business.

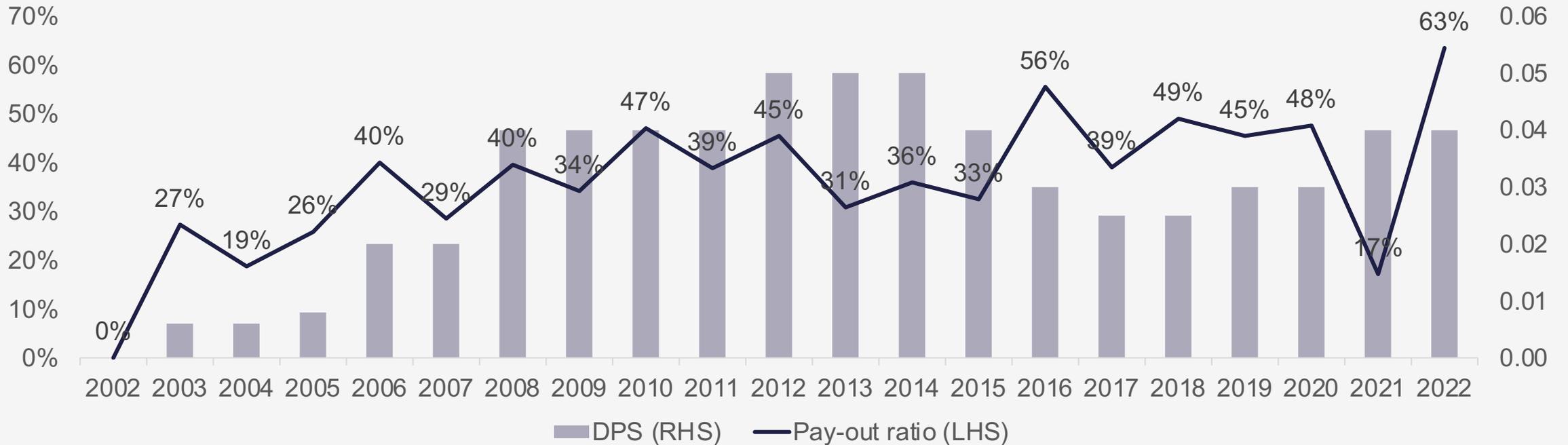


Boustead Singapore (BOCS SP) (SG\$) (FY ending Mar)	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	471	727	686	632	553	605	666	743
Cost of revenues	-330	-559	-512	-487	-431	-459	-493	-550
Gross profit	141	167	174	145	122	145	173	193
Other gains	9	1	-9	5	0	0	0	0
Impairment loss	-1	-3	-2	-3	-2	-2	-2	-2
Selling expenses	-34	-38	-38	-39	-30	-33	-37	-41
Administrative expenses	-57	-63	-71	-72	-58	-63	-70	-78
Operating profit	58	63	54	35	31	46	64	72
Interest income	8	6	8	8	0	0	0	0
Interest expense	-2	-5	-4	-2	-2	-2	-2	-2
Share of equity method investments	-1	-2	13	14	14	15	16	16
Pretax profit	62	63	71	55	43	59	78	86
Income tax	-13	-19	-25	-16	-8	-11	-14	-15
Net profit	50	44	46	39	35	48	64	71
Minorities	-17	-14	12	-8	0	0	0	0
NPAT to controlling	33	31	58	31	35	48	64	70
EPS (SG\$)	0.07	0.06	0.12	0.06	0.07	0.10	0.13	0.15
P/E	12.8x	13.5x	5.4x	10.2x	8.8x	6.5x	4.9x	4.4x
EV/EBIT	5.1x	4.6x	5.4x	8.4x	9.5x	6.4x	4.6x	4.1x
Div yield	3.4%	3.4%	4.6%	4.6%	4.3%	5.8%	7.7%	8.5%
GPM	30.0%	23.0%	25.3%	22.9%	22.0%	24.0%	26.0%	26.0%
OPM	12.3%	8.7%	7.9%	5.6%	5.6%	7.6%	9.6%	9.7%
NPM	6.9%	4.2%	8.4%	4.8%	6.4%	8.0%	9.6%	9.5%

Boustead has paid out around 40% of earnings as dividends



Boustead Singapore dividend per share / pay-out ratio



Source: Bloomberg

Potential downside risks



- **Continued weakness in oil & gas capex:** The energy services segment is cyclical, and so far spending remains muted. ESG pressures might put a lid on future capex, at least in the short- to medium-term.
- **Loss of distribution rights:** It's possible that Boustead could lose the rights to distribute ESRI's geo-spatial software products. The risk is probably small given Boustead Singapore's 45-year+ relationship with ESRI.
- **Weak Australian Dollar:** The geo-spatial segment is dependent on revenues from Australia, and currency movements do matter for the profitability of that segment.
- **Healthcare segment losses:** Losses in the healthcare segment have been building, though management is now trying to restructure the business.

Catalysts



- Boustead Projects takeover finalised
- Singapore construction activity resuming post-COVID-19
- Oil & gas capex picking up
- Healthcare segment restructuring
- Potential new M&A deals

