

## Boustead Singapore counts the cost of Libyan misadventure

by Leu Siew Ying

When Boustead Singapore began doing business in Libya 15 years ago, it kept things simple. It initially limited itself to building sewage treatment plants with equipment fabricated outside Libya, allowing it to collect its money almost immediately. "Our previous business model worked because our sales were through letters of credit," says Wong Fong Fui, chairman and CEO of Boustead. By 2007, the company had moved on to building townships, and began to realise the risks of operating in a country that lacked clear rules and standards.

In particular, Wong discovered that, to execute its projects in the country, Boustead needed to commit more resources to Libya than he intended. "Payment was slow," he explains, which means the company had to commit more of its capital to the projects. "We had to put in a lot more resources and that cost more money. And, if money doesn't come back, your exposure snowballs."

Wong eventually decided he had had enough and began to hunt for ways to extricate his company from the projects and limit its exposure to Libya. "We got cold feet because of the slow progress, the commitment we have to make and our exposure going up," he says. On Feb 2, Boustead said it had restructured its township project with its local joint-venture partner, which reduced its stake in the project from 65% to 35%, and slashed its exposure to Libya by \$18 million, to \$39 million.

It was a prescient and timely move. Later that month, protests against Libya's long-time strongman Muammar Gaddafi's rule broke out and quickly turned into a deadly uprising that has now drawn military intervention from global powers.

"I did not foresee it happening," Wong tells *The Edge Singapore* in an interview last week. Indeed, if he had seen it coming, he might have moved more quickly to collect another \$18 million worth of receivables and performance bond refunds and other claims it had accumulated. Instead, it found itself

having to work with International SOS, an international medical assistance and security services company, to evacuate 31 foreign employees from Tripoli.

Now, Wong is evaluating what went wrong and counting the cost of Boustead's misadventure in Libya. Wong has plenty of experience setting up and building businesses in emerging economies such as Indonesia and Myanmar. Yet, he had thought Libya was relatively stable, with Gaddafi's regime trying to provide for its people. "I thought they were on the right path and things were looking good," he says. "There are no rich people except the ruling elite and they are not ostentatious."

Boustead estimates it might have to write off as much as \$39 million, including \$25 million in performance guarantees and more than \$2 million cash in a bank account. The balance includes receivables for a sewage treatment plant in Tripoli that the company was commissioning. If the company successfully invokes *force majeure*, however, it will not be liable for the \$25 million performance guarantee.

Analysts are already considering the worst-case scenario. Yeak Chee Keong of Kim Eng Securities says he will lower his price target for shares in Boustead by 10% to \$1.99 if the company does need to write off the full amount. Tan Ai Teng of DBS Vickers says she may revise her recommendation once the losses are confirmed. Tan has a "hold" on the stock and a price target of \$1.10.

Wong says Boustead will still report a profit for its FY2011, even if it takes the full loss immediately. That is because the company reported earnings of \$53 million in the first three quarters of FY2011 (the company has a March 31 year-end). He also says Boustead, which had a net cash position of \$173 million as at end-3QFY2011, is likely to still be able to pay a good dividend.

Wong also points out that even after Boustead

writes off its total exposure to Libya, there is still the remote chance of a recovery if the ongoing conflict is brought to a quick end. The sewage plant it was working on in Libya was the largest in Tripoli, and whoever ends up running the country is likely to want Boustead to return to make it work, he says.

As for the township, Wong says Libya is in need of housing for its people but is not building quickly enough. Indeed, with hindsight, Boustead would probably have been better off accelerating work on its projects and finishing them off quickly despite having to kick in more of its capital, he says. By allowing the sewage treatment project to drag on for six years, the company not only missed an opportunity to eventually collect on the project but also burdened itself with the associated overheads for longer than it should have, he adds.

Wong concedes that he is now "less certain" about the Middle East, with one country after another succumbing to potentially bloody uprisings. He says Boustead is working on securing deals around Asia instead, in countries such as Malaysia and Vietnam.

In the past few weeks, its industrial real estate division snared some \$72 million worth of projects in Singapore. Wong was recently at the London base of the company's oil and gas division to chart expansion plans in China, India and the rest of Asia. "That is where the growth is," he says.

As for analysts who are negative on his stock, Wong complains that they do not take into account his cash hoard nor do they appreciate that 25% of his income is actually recurring, from its geo-spatial mapping unit and some of its industrial properties that it is leasing out. "We have no gearing," he adds.

In fact, if the \$173 million of net cash in Boustead were subtracted from its current market capitalisation of \$498 million, the company would theoretically have a residual value of just \$325 million. In Wong's view, that is much too low, given Boustead's current earnings base. "Historically, we were able to make \$60 million a year," he says. "Once you place a value on our cash, the PE [price-to-earnings] valuation should rightly be more attractive."

To be sure, it could be some time before the market gets over the shock of the hit Boustead has taken in Libya. Still, at least one analyst is looking past the ugliness of the current financial year.

"If you look at the prospects, the number of new projects is coming in quite strongly," says Kim Eng's Yeak. "Libya is a one-time event. I don't think it will affect the company's prospects."

Boustead may have got its calculations wrong in Libya, but it seems unlikely to have done itself any permanent damage.