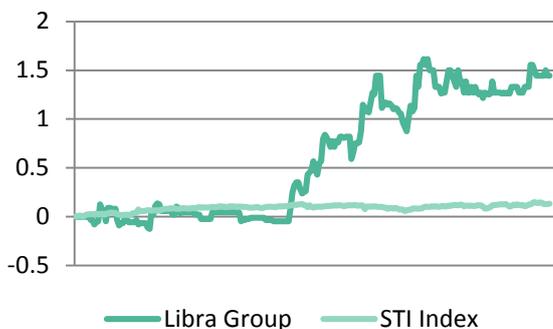


Last Closed Price:	0.22 SGD
12M Target:	0.41 SGD
Upside Potential:	84.00%
GICS Sector:	Industrials Construction
GICS Sub-Industry:	Engineering
Bloomberg Ticker	LGL SP Equity

1Y Price v. Relative Index



Company Description

Libra provides integrated mechanical and electrical engineering services as a sub-contractor, including air-conditioning and mechanical ventilation (“ACMV”) systems, fire alarms and fire protection systems, electrical and ELV systems, sanitary and plumbing systems, specialty gas systems and ACMV. They have also expanded into main contracting business to provide total building solutions for building owners.

Key Financials

Market Capitalization (mil SGD)	22.9
Shares Outstanding (mil)	114.7
A.D. Value Traded (mil SGD)	0.5
Free Float (%)	43.8
Dividend Yield (%)	2.53
Beta	0.422
P/E (ttm)	8.35

(USD mil)	FY11A	FY12A	FY13A	FY14A
P/E (x)	46.24	-	42.27	-
P/B (x)	1.181	2.324	2.221	-
ROE (%)	4.288	-	4.08	-
12m Gross Div	-	-	0.003	-
Div Yield (%)	-	-	3.06	-
D/E	-	0.289	0.182	-
EPS (SG cents)	0.29	0.30	0.32	-

Key Executives

Chairman	Chu Sau Ben
Deputy Chairman	Alex Chua Siong Kiat
Vice President	Zhou Qian

Research Analyst:

Edwin Su	Edwinsu91@gmail.com
Leonard Goh	LeonardGohYeeTat@gmail.com

BUMPY ROAD AHEAD

Strong Order Book Momentum

It was announced last month on December 2014 that Libra had won a collective S\$11.3M of M&E contracts. The year-to-date order book is estimate to be S\$105.6m. 70,000 units of private residential units and ECs are expected to be completed by 2017. Along with other public projects, we believe that Libra is able to secure more contracts. The recent orders along with new building development give assurance for steady revenue.

Effective Leadership and Management

In 2013, Libra underwent internal restructuring. Its effort was paid off with a turnaround in place. Mr Chu Sau Ben, the founder and majority shareholder took over Mr William Lee Kay Choon, to helm the company. After Mr Chu Sau ben took over, Libra saw a 90% jump in revenue while NPAT surged to S\$2.9m from S\$0.9M.

Evolving from Turnaround to Growth Story

Back in FY2011 and FY2012, Libra was struggling to maintain its profits dipping from low profit margin in 2011 to losses in 2012. However, in 2013, Libra managed to make turnaround to end of FY2013 in the black but still on a low margin. We feel that the recent half year result signifies that Libra has evolved from a turnaround company to a growth story. Its share price has surged strongly recently on the back of a recovery of its core business; achieving profits and margins that was never attained before so far from its inception onto SGX.

Valuation Methodology

We favour the DCF method over the comparable transactions method, given the complexity of Libra’s business structure which has 3 business segments. The comparable transaction methods look at a similar model of a business that has the same financials in the same industry. However Libra’s wide variety of business segment puts it in no direct competition with any single company. Hence, the DCF method is a more appropriate reflection of Libra’s value as their earnings are conditional on cash flow visibility.

Key Investment Risks

Libra Group faces many challenges as a small company in an industry with many large players. It faces potential problems from economic factors to government policies in Singapore due to the fact that its business is fully based in Singapore. However, we deem Libra as a small fast boat in a large ocean where it has huge potential that mitigates this risk through its total building solutions which we see as a niche market.

Figure 1. Revenue by Division

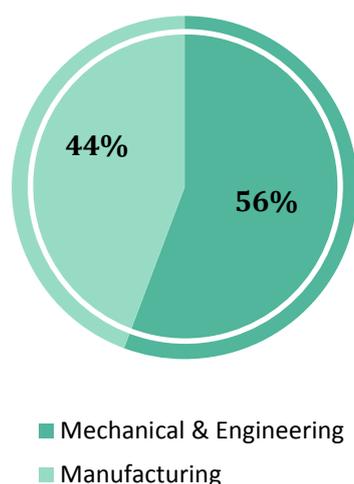
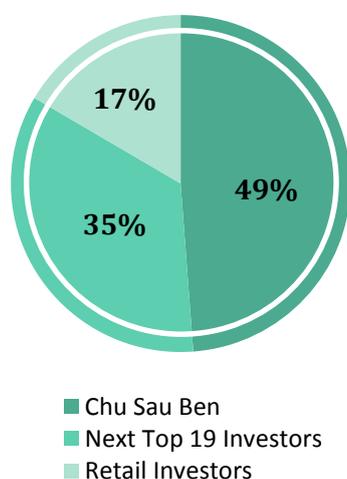


Figure 2: Shareholders Structure FY2013



Source: Libra Annual Report 2013

Figure 3: Insider Trades

Date	Name	Lots (\$'000)
09/07/2014	Mr Chu Sau Ben	29
19/06/2014	Mr Chu Sau Ben	536
16/06/2014	Mr Chu Sau Ben	1553
09/04/2014	Mr Chu Sau Ben	1000
08/04/2014	Mr Chu Sau Ben	300
07/04/2014	Mr Chu Sau Ben	1300

Source: www.shareinvestor.com

Company Overview

The Company was incorporated in Singapore on 20 October 2010 under the name of Libra Group Pte Ltd. On 6 October 2011, the Company changed its name to Libra Group Limited. The Group's business can be categorised into three segments as follows:

M&E Services

Through its subsidiary, Kin Xin Engineering Pte. Ltd, Libra has been in the business of installing ACMV insulation in Singapore since 1997. Since 2005, Kin Xin Engineering expanded its business to include additional M&E services, specializing in the supply and installation of ACMV systems, fire alarms and fire protection systems, electrical systems as well as sanitary and plumbing systems for residential, commercial and industrial buildings in Singapore. This wide range of services allows us to provide comprehensive one-stop services for our customers. Libra had recently successfully upgraded to BCA L6 for ACMV installation and L5 for electrical and ELV installation.

Manufacturing

Through its other subsidiary, Libra Engineering Pte. Ltd, Libra started fabricating ACMV ducts in 2005. Libra is currently manufacturing the ACMV ducts for use in construction projects and also for sale to third party contractors including main contractors and sub-contractors in the construction industry.

Main Contract Business

In May 2013, Libra acquired majority of the interests in a BCA licensed C1 main contractor, Ai-Build Pte Ltd, to undertake complete building construction contracts to provide total solutions for their valued customers. This segment operates as a general contractor for building construction, including upgrading works; and wholesale trade as general importers and exporters.

Revenue Breakdown and Growth

Revenue breakdown by division is based on FY2013 figures as shown on Figure 1. Main Contract Business has yet to contribute to revenue in 2013 as it is a relatively new business interest in which Libra has just acquired as mentioned above. Judging by the recent financial quarters on how profits has been improving significantly, we believe that the Main Contract Business by the end of FY2014 will show to have helped improve Libra's top-line and bottom-line growth.

Shareholders Structure

Over from FY2011 to FY 2013, Mr Chu Sau Ben has pared down his stake in Libra holdings from 58 million shares to 49 million shares as reported in Annual Report of 2013 shown in Figure 2. That did not appear to be good news given the fact that the company was not doing well back then. However, as Mr Chu Sau Ben took over the helm this year he has since then taken bought back a substantial amount of shares since then; up to a record of 59 million as of his last transaction as shown in Figure 3.

SWOT Analysis

Figure 4: Track Record of Construction Completed

Segments	Location
Residential	35 Sommerville
	Centro
	Scala
	Spottiwood
	The Sound
Commercial	Canberra Residence
	Park Regis Hotel
	Scotts Square
	Ten Mile Junction
	Katong Mall
Industrial	Breadtalk HQ
	West Link One
	MK23 Tai Seng Link
	Sambo
Others	30 Toh Guan Road
	Sports Hub

Source: OSK-DMG

Figure 5: Construction Industry Outlook

Year	Construction Demand	
	Public	Private
2014	\$19.7bn	\$18.0bn
2015F	\$18 -21bn	\$11 - 15bn
2016F	\$16 - 20bn	-
2017F	\$16 - 20bn	-

Source: www.news.gov.sg

Strengths

Libra has an established track record as it has been in the industry for over 15 years. Leveraging on its strong customer and suppliers relation, Libra completed a notable number of projects which proves itself as a reliable contractor as shown in Figure 4.

Libra's 3 business segment tie well with each other. Its building and construction segment synergises well with its other business. As the main contractor, it has the decision power to select which contractors they want to provide different services. Therefore, it will be able to bring in more ACMV duct manufacturing and M&E service business to new projects.

Weakness

Libra is looking to capture more market share as it seeks to grow its top-line. As it increases its market share, margins will most likely see a slower increase or even a decrease from its current quarter's tremendous improvement. This is because by focusing more aggressively on winning more contracts, it is highly likely that the company may take on contracts with lower profit margin. Hence, there is a possibility that Libra may slump back to its low profit margins from 2010 to 2013.

Opportunities

Libra is currently well positioned in the manufacturing industry that is expected to continue to grow in the new future. However, we see Libra's potential to grow more correlated towards the growth of the local construction industry outlook as most of its demand is derived from installing equipments and systems in buildings. Therefore, as shown in Figure 5, Singapore's construction outlook is optimistic such that there is an expected increase in industrial projects that will cushion the possible slowdown in public housing projects.

We believe that with robust construction plans in place by the Singapore government to ease the rising demand in the property market, Libra is in a good position to procure more contracts in Singapore. On top of that, we believe that there are opportunities awaiting Libra in the South East Asia such as expanding into Myanmar and Indonesia.

Threats

Government policies are strongly correlated with construction business in Singapore. The legislation about the rise of foreign levies is one example that has diminished Libra's earning by pushing up costs and margins.

Another threat to Libra is its inexperience in overseas business environment. While it is looking to expand its business into other regions, it does not have ample data and experience to do so. The business model applied in Singapore might not be applicable in other countries.

2 main raw materials used in Libra's business is galvanised iron and stainless steel. Price is subject to changes because Libra does not have a long-term supply contract with its supplier, therefore affecting margins and costs.

Libra's business is not geographically diversified. 100% of its revenue derives from the construction industry in Singapore. Its highly dependency on Singapore's economy puts Libra in a vulnerable position. Any downturn in the Singapore economy will reduce construction demand and therefore affect Libra's business as it has fewer projects to undertake or they have to work for a lower price.

Investment Thesis

Figure 6: Order Book as of 8th February 2015

Project Names	Contract Price (mil)	Completion Year
15 Benoi Road	12.1	2016
Tampines Street 86 & Temasek Polytechnic	9.5	2016
Sin Ming Sub-Contract & Ngee Ann Polytechnic	5.28	2015
NTU Residence Hall	6	2016
Actual Order Book as of 8/2/2015	95.68	

Source: Company Announcements (SGX.com)

Strong Order Book Momentum

According to OSK-DMG's estimates on Libra's book order back in April 2014 in Figure 7, Libra was expected to gain 20 million more of contracts orders by the end of FY 2014. However, even before FY 2014 ends for Libra, the company has already secured 32.88 million worth of contracts till date. It is 50% higher than the estimated order books; 12.8 million more than the estimated of 82.8 million by OSK-DMG as illustrated in Figure 6.

Libra announced last month that it had won a collective S\$11.3m of M&E contracts. With year-to-date order book estimated at S\$105.6m. The recent orders were secured through its subsidiary Kin Xin Engineering, and include a S\$6m sub-contract for air-conditioning and mechanical ventilation (ACMV) and fire protection works to a residence hall development in Nanyang Technological University (to be completed by Jan-16). Another S\$4.2m sub-contract was awarded for ACMV works to an eight-storey auto workshop industrial development at Sin Ming Road, as well as similar works for Ngee Ann Polytechnic Block 22 worth S\$1.1m (both to be completed this year). We note that working for reputable customers such as Singapore Piling and Civil Engineering, together with the management's strict receivables control, could lead to higher quality receivables.

Figure 7: Existing Projects and Estimated Order Books in April 2014

Project Names	Contract Price (mil)	Completion Year
eCo Condo @ Bedok South Avenue 3	6.4	2016
SKIES Condo@Yishun	4	2015
MND Office @ Jurong East Gateway	9.9	2014
Temasek Polytechnic East Wing	13.8	2015
Seas Horizon EC	4	2016
EC One	11	2015
RCC 7 th Storey Roof Garden	0.5	2015
Singapore Polytechnic	2.7	2015
Altez Condo	4	2014
The Cape	2	2014
Woodheaven	4.5	2015
Estimated New Orders by 2014	20	
Estimated Order Book	82.8	

Source: OSK-DMG

Figure 8: Master Plan 2014

Project	Estimated cost / volume	Target completion
Housing	- Additional 173,370 units (largely public housing) between 2014 and 2016 - 28,741 HDB and 21,263 non-landed private housing units expected to be completed in 2014	Between 2014 and 2016
Changi Airport Project Jewel	Expected to cost billions	Target completion by 2018
Changi Airport T4	SGD1.28bn	Expected to be completed in 2017
Changi Airport T5	Expected to cost billions	Target completion by 2020
Cross Island Line (including works for the following :)		Expected to be ready by 2030
• Downtown Line extension	The entire DTL is estimated to cost SGD20.7bn (excluding the extension)	Due around 2025
• Downtown Line 2		Expected to complete in mid-2016
• Downtown Line 3		Expected to complete in 2017
• Circle Line Stage 6	Expected to cost billions	Works will commence in 2017 and targeted to complete by 2025
• Thomson Line	SGD18bn	Expected completion date: 2019-2021
• Jurong Regional Line	Expected to cost billions	Expected to be completed in 2025
High Speed Rail project between Singapore and Malaysia	Expected to cost billions	There are indications that a tender will be called in 2014, with target completion by 2020
North-South Expressway	SGD8bn	Main construction works to start in 2015 for completion by 2020

At the 4th Quarter, there was a total supply of 68,960 uncompleted private residual units. The Master Plan 2014 in Figure 8 also shows various construction projects in Singapore. This translates to growth potential for Libra in terms of contract wins in near future.

With the strong momentum in order book wins illustrated above and the potential industry, we believe that Libra has built a strong reputation as a small, up and coming construction and engineering firm. Therefore, we expect more contracts to come in further which will contribute positively to not only FY 2014 but also in the near future of FY2015 to FY 2017.

Figure 9: Production Facility at 53 Loyang Drive

Information	Details
Purchase Price	SGD16m
Owner	JTC
Land Area	65,061 sq ft
Built In Area	86,021 sq ft
Max. GFA	162,652 sq ft
Plot Ratio	2.5
Remaining Lease	38 years

Source: OSK-DMG

Efficient Management Team

Former CEO William Lee helmed the company for 3 years but failed to steer the company into greater heights. From 2011 to 2013, Libra has been underperforming the market. In an effort to enhance shareholders' value, Libra's internal restructuring saw the return of its founder and majority shareholder, Mr Chu Sau Ben, taking back leadership of the company. With more than 28 years of experience in the construction industry as well as the intellect and skill-sets proven by numerous of his other successful business venture, Mr Chu will most likely be Libra's light, leading it towards successful growth and development. Also, with 20% of its staff replaced for efficiency, there was a 30% increase in manpower and a 90% jump in revenue. Since then Libra is rapidly gaining traction in terms of growing business volumes, leveraging on the firm public construction outlook in Singapore and strengthening margins through active rationalization of business cost and operations. One example on its active rationalization is the purchase of a new production facility with land at 53 Loyang Drive. Libra used this facility to cater to its expansion by housing all its division under a single roof and support its growing operations as shown in Figure 9. The new facility helped Libra in cost saving of S\$1m a year.

Valuation & Key Investment Risks

We favour the DCF method over the comparable transactions method, given the complexity of Libra's business structure which has 3 business segments. The comparable transaction methods look at a similar model of a business that has the same financials in the same industry. However Libra's wide variety of business segment puts it in no direct competition with any single company. Hence, the DCF method is a more appropriate reflection of Libra's value as their earnings are conditional on cash flow visibility.

We did projection for each different segment of the company's business; understanding that not all the segments will enjoy the same rate of growth. We have allowed for a much higher growth rate for its Main Contract Business due it being in a niche market. We also forecasted a conservative growth rate for the Manufacturing segment due to the fact that there will definitely be more labour cost pressure in the future as labour policy continues to tighten as well as the competitive landscape of the industry.

Revenue Growth Forecast	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Mechanical & Electrical	-12.10%	42.30%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Manufacturing	52.56%	-2.78%	-1.00%	0.00%	1.00%	2.00%	2.00%	2.00%
Main Contract Business	-	-	35.00%	35.00%	25.00%	25.00%	20.00%	20.00%

After deriving Libra's future cash flow through the three different projection in revenue, we added the cash flows from the three segments together and discounted it back to present value arriving at a value of \$0.41 SGD, representing a 84% upside potential.

Key Investment Risks

Libra is a small company with great potential to grow in within the local construction scene. Coupled with strong financial results in HY2014, we see good growth potential in the company. However, given the potential, Libra's business bears some inherent risks.

Dependency on Singapore's Economy and Policies

As mentioned above, Libra is a small and niche company. Therefore, the company derives all of its revenue from Singapore. Given its concentrated operations in Singapore, naturally the company will be prone to economic swings and policies. These policies include labour policies that continue to

pose as a threat in diminishing Libra's margin and HDB's decision to slow down public housing construction. However, in these aspects, we see these risks as manageable as new strong intake of order books can potentially offset the increasing labour costs that have already eroded the manufacturing segment's gross profits. This was proven in HY2014 where profits were significantly higher than HY2013.

Potential Loss in Manufacturing Segment

As mentioned briefly above, the tightening of labour policy over the years has posed as a significant risk to Libra, specifically its Manufacturing segment which operates on thin margin due to its highly competitive industry. Therefore, labour costs fluctuations will likely tip Libra's Manufacturing segment into the red which may potentially reduce its overall growth. We can see that from its recent HY2014 report that its Manufacturing segment saw a dip in \$1.1 million due to labour costs and tough competition. However, we view this as a management efficiency issue whereby such costs fluctuation can possibly be kept to its minimal with the right management. Thus far, we have seen the efficiency and clear leadership by Mr Chu Sau Ben and hence, we believe that this poses as little to no risk to the firm as of now.

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