CORPORATE

Boardroom sees opportunity in e-solutions; riding better corporate confidence this year

| BY JOAN NG |

Kim Teo sits at a desk surrounded by six large computer screens. He is peering into a seventh, on his laptop. The executive director and CEO of Boardroom says he likes to be able to do several things at once: from checking his emails and surfing the Internet, to having web conferences with associates in the company's many overseas offices.

Teo is working hard to enable Boardroom's clients to perform all their mundane, day-today corporate tasks with the same technological savvy and efficiency. Boardroom helps businesses do everything from issuing payslips to auditing their accounts. It also helps listed companies do tasks that range from submitting corporate announcements to the stock exchange to organising their shareholder meetings. Specifically, Boardroom is a provider of outsourced business solutions in six main service lines: accounting and finance, corporate secretarial, human resources and payroll, internal audit and risk management, share registration and taxation.

Last month, Boardroom announced the launch of a product dubbed eSolutions, which enables listed companies to do electronic polling at their AGMs, distribute their annual reports over the Internet or allot employee share benefits without the usual complicated paper process. These electronic solutions are relatively new to the industry, and have progressed further in some countries than others. In Denmark, for instance, there have long been rules that allow companies to hold completely virtual annual general meetings (AGMs).

Teo figures it will only be a matter of time before companies in Asia are allowed to conduct their affairs in a similar fashion. And, he wants Boardroom to position itself as a leader in that space. "There are other global players out there, but within Asia-Pacific, I believe we are the only one [offering] a very comprehensive service," Teo tells *The Edge Singapore* in a recent interview.

Going electronic doesn't in itself mean more revenue and earnings for Boardroom, though. Instead, Teo is eyeing a new range of services the company might be able to perform for its clients once electronic and online services gain acceptance. "Once you move electronically, it opens up new and creative ideas for value propositions," he explains. "That's where we see Boardroom evolving. [We have a] traditional core business. But like any core business, we are using IT to enable it, and in the process of enabling, we are finding new opportunities to create new value propositions."

As an example, Teo points to an eCommunications platform that Boardroom can use to send out meeting notices to shareholders. It can send reports online and direct shareholders to an online proxy website that provides a secure process for shareholders to appoint proxies. In short, the day might come when Boardroom is able to organise virtual AGMs, prising the event out of the hands of hotels and convention centres and moving it on to its computer servers.

"The technology is there today to do a virtual AGM," Teo says, adding that it would make life easier for companies as well as their shareholders. "One of the issues we have today is that physical AGMs are all bunched up." With virtual AGMs, Teo figures he would be able to use the seven screens on his desk to observe seven AGMs at the same time. "If you can run a concurrent virtual AGM, then physically you can visualise seven AGMs at the same time from one spot."

SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Teo: Boardroom is an old business, but it is a company going through a new growth cycle

Growing overseas

In the more immediate term, Teo sees Boardroom growing simply by expanding overseas. Over the last few years, the company has made several acquisitions that have given it a presence in China, Hong Kong, Malaysia and Australia. Some of these have already helped boost revenue or earnings quite significantly. In FY2011 ended June, for instance, its revenue grew 57.5% to $54.9 million on the back of the acquisition of a share registration company in Australia.

Now, the company has just completed the acquisition of the remaining 40% stake in its subsidiary Boardroom China Holdings Pte Ltd. Teo says the market in China is booming, with plenty of room to grow. However, it remains a challenge because of its size and complexity. "Incorporating a company in China takes three to six months. In Singapore, it takes three hours," he explains. "Different sectors have different rules. And within each province, each district, the rules may be there, but the interpretation is different."

Yet, Teo sees this complexity as an opportunity for Boardroom to provide an indispensable service to its clients. "If you can master it, that becomes your barrier to entry," he says. Currently, some 80% of Boardroom's clients are in China, and Teo says the growth opportunity is "tremendous".

Teo adds that the company is looking for other companies to acquire. "Where we would like to be and are not in is perhaps Indonesia, which is doing very well." What about emerging or developing markets such as Myanmar, Vietnam and Thailand? "A lot of it is going to be driven by quantifying the opportunity and how much it makes sense," he says. "We like developed markets. We like markets that pay high fees, we like markets that have strong enforcement of the law, and we like countries that aspire for high levels of corporate governance. Those tend to be very lucrative markets."

Steady cash generator

Even as Teo charts Boardroom's future growth around the region, the company continues to generate decent cash flows from its existing operations. The company is the largest share registrar in Singapore with a 51% market share. In the last three years, it also handled about 85% of the IPOs here by market capitalisation. Over the last decade, it has generated positive free cash flows in all but three years. And, it has also paid a dividend every year since its listing in 2000.

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Teo says while a portion of Boardroom's revenue is stable and consistent, a significant portion is subject to market cycles. "It's related to economic activity," he explains. "If the stock market is active, more companies raise capital. Certain parts of our revenue are related to corporate action." Indeed, in the wake of the financial crisis, the company suffered from weakened confidence in the corporate sector. For FY2009 and FY2010 (the company has a June year-end), Boardroom reported a dip in both revenue and earnings.

Fortunately, confidence and corporate activity are now picking up again. For 2HFY2012, Boardroom reported a 6.6% increase in revenue to $30.6 million and a 23.7% increase in earnings to $4.1 million. The marked improvement in its bottom line was attributed to an $800,000 impairment in the preceding year. Excluding that impairment, earnings would have been up only a marginal 1.6%. One reason for the weaker growth was a 10.3% increase in staff costs to $17.9 million.

"Cost of labour in Asia now is picking up dramatically. The same thing happened in the US and Europe. The cost of labour went up. The cost of office premises in key locations went up," Teo says. However, that might well be a harbinger of stronger revenue growth for Boardroom, he adds. That's because companies tend to actively hunt for ways to reduce their overheads as labour and rent costs rise. And, outsourcing corporate services to the likes of Boardroom is one way of achieving this. In particular, Teo sees greater demand for Boardroom's eSolutions over time as these solutions cut out paper trails and reduce business complexity.

Growth and yield

Boardroom is 32.9% owned by **GK Goh Holdings**, the Mainboard-listed company that once owned one of the largest stock brokerage firms in Singapore. GK Goh Holdings agreed to sell the brokerage business to Malaysia's CIMB in 2005. Among other things, it now holds a number of strategic investments and provides boutique financial services. It acquired a 32.1% stake in Boardroom in 2006. Boardroom's second-largest shareholder is Third Avenue Management, with a 12.5% stake.

Teo was appointed CEO of Boardroom in 2009. From 2004 to 2007, he was executive director and regional head of retail equities at what is now CIMB Securities. And, he was no stranger to running companies at the time. In 1989, at the age of just 29, he was appointed CEO of CMG First State Investments Singapore. "I was probably the youngest CEO then, during that era," he says.

Since his appointment, Teo has made an effort to expand Boardroom's footprint in the region, notably in China and Australia. Yet, it doesn't have much of an investor following. The company has a market capitalisation of just $120 million, and currently does not have regular analyst coverage. Earlier this year, however, shares in Boardroom enjoyed a surprising run from 55 cents to as high as 70 cents. They closed at 64 cents on April 24.

Even after the run-up, however, shares in Boardroom trade at 13.5 times earnings and offer a relatively high dividend of 4.7%. That could prove to be an attractive valuation if Teo succeeds in developing and expanding the business through IT. He says: "Boardroom is an old business, but it is a company going through a new growth cycle and there's a transformation there." E