

May 15, 2013

Keong Hong Holdings

1H Performance Lifted By Stronger Margins

Results Review

- **Positive 1HFY13 (Sep.) performance.** For 1HFY13, Keong Hong Holdings (KHH) reported a higher net profit of SGD6.2 mln (+31.2% YoY) despite lower revenue of SGD52.8 mln (-44.5% YoY). The higher profitability was mainly attributable to stronger gross margin of 16.2% (+7.5%-pts YoY) due to project cost savings. As expected, an interim tax-exempt DPS of 0.5 SG cents was declared which works out to a dividend payout ratio of 12.8%.
- **Clinched two building construction projects totalling SGD251 mln** since the start of 2013. They are the SGD149.9 mln main contract for the EC at Sembawang Crescent/Sembawang Drive and the SGD101 mln contract to construct a 19-storey hotel mixed development. KHH unbilled order book presently stands at about SGD542 mln, lending earnings visibility up to 2016.
- **Another JV Executive Condominium (EC) project in the pipeline** with target launch in 2H2013. KHH entered into a strategic alliance with JBE Holdings Pte Ltd early this year to jointly develop an EC at Sembawang Crescent/Sembawang Drive. KHH has a 20% stake in the project. This is the second EC project following the success of the fully-sold 728-unit Twin Waterfalls.
- **Prospects for the construction sector remain positive with the continuous roll-out of public projects.** The management is optimistic of its performance in the current financial year and believes the healthy construction demand will help sustain the growth momentum in the order book. On-going concerns include tightening in foreign workers quota, stiff competition and the recent round of cooling measures on the residential property market.

Financial Performance

6 months ended (SGD mln)	Mar-12	Mar-13	YoY%
Revenue	95.2	52.8	(44.5)
EBIT	6.5	7.1	8.4
EBITDA Margin %	7.6	15.7	
Net Income	4.8	6.2	31.2
EPS (Basic & Diluted SG cents)*	2.97	3.93	32.1
Rolling 12 months EPS (SG cents)	6.63	13.46	103.2
Rolling Price/Earnings (x)	8.0	3.9	
Cash & bank balances	43.8	29.0	(33.7)
Net Debt	0.0	0.0	
Net Gearing x	0.0	0.0	
Total Equity	35.0	50.2	43.3
Book Value/Share (SG cents)*	21.9	31.8	45.2
P/BV x*	2.4	1.7	

Source: Company data, S&P Capital IQ Research

*Based on 160 mln post IPO shares in issue for 6 months ended Mar-12

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GICS: Industrials/Capital Goods
Business Summary: Keong Hong Holdings Ltd (KHH), an investment holding company, provides building construction services for residential, commercial, industrial and institutional projects to the private and public sectors in Singapore and Maldives.

Country of Incorporation: Singapore
Head Office Location: Block 151 Bukit Batok Street 11 #03-250, Singapore 650151

Place of Operation: Singapore

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CURRENT PRICE:
 SGD0.53

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Key statistics

52-week Price Range	0.58 / 0.28
Avg Vol - 12 months ('000 shares)	323.5
Price performance (%) - 1 month	(1.85)
- 3 month	(4.50)
- 12 month	79.66
No. of Outstanding shares (mln)	156.0
Free Float (%)	49.3
Market Cap (SGD mln)	82.7
Enterprise value (SGD mln)	56.1

Major shareholders (%)

Leo Ting Ping, Ronald	52.1
Teou Kem Eng	6.4
Lim Ewe Ghee	3.4

Source: Company data, S&P Capital IQ

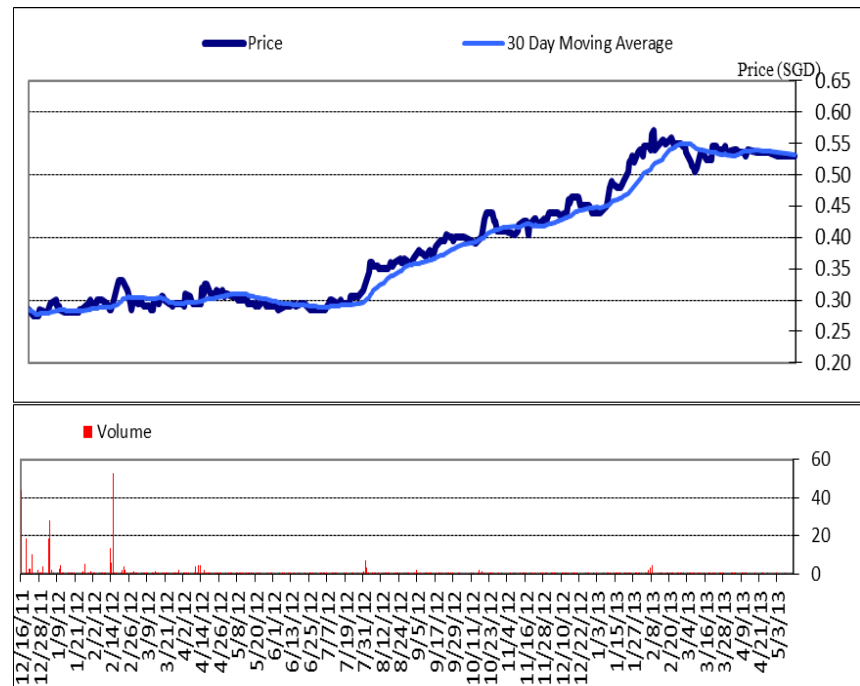
Share Price Performance

Share Price Performance Details

Current Price	0.53
52-week Hi/Low	0.58/0.28
10-day Avg Volume (mln)	0.02867
Price 1 Month go	0.54
1 Month Price Performance	-1.85%
Price 3 Months Ago	0.555
3 Month Price Performance	-4.50%
Price 6 Months Ago	0.43
6 Month Price Performance	24.71%
Price 12 Months Ago	0.30
12 Month Price Performance	79.66%
Market Capitalization (SGD mln)	82.7
Beta	0.79

Source: S&P Capital IQ

Keong Hong Holdings Share Price Chart



Source: S&P Capital IQ

Comparative Performance

	Keong Hong Holdings Ltd.	FTSE Straits Times Index	Lum Chang Holdings Ltd.	BBR Holdings Ltd.	KSH Holdings Ltd.
1 Month	-1.85%	4.21%	4.41%	-1.82%	0.00%
3 Month	-4.50%	4.32%	-2.74%	1.89%	1.05%
6 Month	24.71%	15.27%	16.39%	12.50%	43.28%
12 Month	79.66%	19.85%	16.39%	25.58%	129.57%

Source: S&P Capital IQ

Financial Performance

Recent interim performance: KHH reported a higher 1HFY13 (Sep.) net profit of SGD6.2 mln (+31.2% YoY) despite lower revenue (-44.5% YoY). The decrease was mainly due to fewer active projects on hand as compared to 1HFY12, as several projects had received TOP or substantially completed namely the Singapore Institute of Management Projects, The Parvis, 8@Woodleigh and The Residence resort in Maldives. The lower revenue was partially offset by revenue recognition from new projects such as Paterson 2, The Terrasse and the Twin Waterfalls.

More notable is KHH's jump in gross margin, which rose to 16.2% in 1HFY13 from 8.7% in 1HFY12. This is due to cost savings from certain projects that have been substantially completed as well as contribution from new projects. The group also reported lower administration expenses (-20.5% YoY) due mainly to higher professional fees incurred in 1HFY12 pursuant to the company's IPO.

Meanwhile, the KHH's venture into property development to develop the EC at Sembawang Crescent/Sembawang Drive has impacted the group's balance sheet and cashflow. While cash and cash equivalents has declined to SGD29.0 mln (from SGD56.1 mln at end-FY12), the amount due from associates rose to SGD30.5 mln in 1HFY13 (from SGD16.5 mln at end-FY12) as a result of shareholders' loan of SGD14 mln given to Oasis Development Pte Ltd, the JV company set up to develop the EC. Nevertheless, the balance sheet remains healthy with a net cash position of SGD27.1 mln as at Mar. 31, 2013.

Detailed Profit & Loss

SGD mln	Latest Half Year			6 Months Ended		
	Mar-12	Mar-13	YoY (%)	Mar-12	Sep-12	Mar-13
Revenue	95.2	52.8	(44.5)	95.2	72.2	52.8
Cost of sales	(86.9)	(44.2)	(49.1)	(86.9)	(51.2)	(44.2)
Gross Profit	8.3	8.6	3.5	8.3	21.0	8.6
<i>Gross Profit Margin</i>	8.7%	16.2%	7.5%	8.7%	29.1%	16.2%
Other Income	1.6	1.1	(26.9)	1.56	(0.0)	1.1
Administrative expenses	(3.3)	(2.6)	(20.5)	(3.31)	(3.4)	(2.6)
Share of profit from JVs	0.0	0.0		0.0	0.0	0.0
Share of results of associate	0.0	0.0		0.0	(0.2)	0.0
Profit from operations/EBIT	6.5	7.1	8.4	6.5	17.4	7.1
<i>EBIT Margin</i>	6.9%	13.4%	6.5%	6.9%	24.2%	13.4%
Finance expenses	(0.0)	(0.0)	(21.6)	(0.0)	(0.0)	(0.0)
Profit before tax	6.5	7.0	8.5	6.5	17.4	7.0
<i>PBT margin</i>	6.8%	13.3%	6.5%	6.8%	24.1%	13.3%
Income tax	(1.1)	(1.3)	17.0	(1.1)	(3.5)	(1.3)
<i>Effective tax rate</i>	17.1%	18.4%	1.3%	17.1%	20.1%	18.4%
Minority Interests	(0.6)	0.5	(179.0)	(0.6)	1.3	0.5
<i>Net profit attributable to equity holders</i>	4.8	6.2	31.2	4.8	15.3	6.2
As reported EPS (SG cents)	2.97	3.93	32.1	2.97	9.54	3.93
Share capital (mln)	160.0	156.0		160.0	160.0	156.0
Weighted share capital (mln)	160.0	158.9		160.0	160.0	158.9

Source: Company data, S&P Capital IQ Research

Income Statement (SGD mln)

FYE Sep. 30	2010	2011	2012
Total Revenue	124.8	189.5	167.4
Growth Over Prior Year	153.3%	51.9%	-11.7%
Gross Profit	10.1	13.8	29.3
Margin %	8.1%	7.3%	17.5%
EBITDA	10.9	13.7	26.9
Margin %	8.8%	7.3%	16.1%
EBIT	9.7	12.2	24.0
Margin %	7.8%	6.4%	14.3%
Earnings from Cont. Ops.	8.2	11.0	19.3
Margin %	6.5%	5.8%	11.5%
Net Income	8.2	9.4	20.0
Margin %	6.6%	4.9%	12.0%
Basic EPS (SG cents)*	5.14	5.86	12.51

Key Growth and Fundamental Ratios

FYE Sep. 30	2010	2011	2012
EPS Growth (%)	330.3	14.0	113.5
Sales Growth (%)	153.3	51.9	-11.7
Asset Turnover (x)	1.7	1.8	1.4
Receivables Turnover (x)	3.2	3.5	3.4
Effective Tax Rate (%)	13.2	8.9	19.3
Total Debt to Equity (%)	23.0	5.3	1.7
Interest Coverage (x)	33.1	84.1	378.0
Quick Ratio (x)	1.1	1.3	1.6
Current Ratio (x)	1.1	1.3	1.6
Payout Ratio (%)	0.0	23.9	28.0
Debt to Capital (%)	18.7	5.0	1.6

Balance Sheet (SGD mln)

FYE Sep. 30	2010	2011	2012
Current Assets	83.9	110.9	119.3
Fixed Assets	5.0	4.6	3.5
Other LT Assets	5.8	0.3	3.2
Total Assets	94.7	115.9	126.0
Current Liabilities	76.0	83.6	74.2
Total Liabilities	78.9	84.5	74.6
Share capital	8.4	13.6	23.8
Shareholder's Equity (including minority interests)	15.8	31.4	51.4
Cash and Cash Equivalents	27.7	39.7	56.1
Total Debt	3.6	1.7	0.9
Net Cash/(Debt)	24.0	38.1	55.2

Cash Flow (SGD mln)

FYE Sep. 30	2010	2011	2012
Cash from Operations	16.8	10.4	20.9
Capital Expenditure	(1.5)	(0.9)	(1.8)
Cash from Investing	2.8	7.1	(4.3)
Total Debt Issued	0.0	0.0	0.0
Total Debt Repaid	(4.0)	(2.4)	(0.8)
Cash from Financing	(7.1)	(2.9)	8.5
Change in Cash	12.5	14.5	25.0
Cash Flow Per Share (SG cents)*	10.5	6.5	13.0

Source: S&P Capital IQ * Based on 160 mln post IPO shares in issue

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A-	Above Average	D	In Reorganization
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B	Below Average		

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CY-	Calendar Year
DCF-	Discounted Cash Flow
EBIT-	Earnings Before Interest and Taxes
EBITDA-	Earnings Before Interest, Taxes, Depreciation and Amortization
EPS-	Earnings Per Share
EV-	Enterprise Value
FCF-	Free Cash Flow
FFO-	Funds From Operations
FY-	Fiscal Year
P/E-	Price/Earnings
PEG Ratio-	P/E-to-Growth Ratio
PV-	Present Value
R&D-	Research & Development
ROE-	Return on Equity
ROI-	Return on Investment
ROIC-	Return on Invested Capital
ROA-	Return on Assets
SG&A-	Selling, General & Administrative Expenses
WACC-	Weighted Average Cost of Capital

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