

Keong Hong Holdings Limited

Results Confirm High Momentum

Keong Hong Holdings Limited (Keong Hong) recently announced its 1H FY15 results. For 2Q FY15 ended March, revenue grew by 20.8% year-on-year, while PATMI grew by 12.9%. Revenue was in line with expectations while gross margin was higher than expected at 9.6% versus our expectation of 8%. With net order book at S\$322.0m, the company should have little challenge growing its topline for the next one to two years. At the same time, the Keong Hong's 20% owned hotels at Katong will open in 2016 and will thus further bolster its share of associates' income in FY17.

Strong Pipeline of Contracts: 2Q FY15 revenue reached S\$68.2m on the back of construction progress at projects such as Alexander Central, J Gateway and SkyPark Residences. The S\$101.1m Alexander Central project obtained TOP in April 2015. The J Gateway and SkyPark Residences are respectively about 30% and 50% completed. The company is in the midst of negotiating for the contract to construct the Sembawang Avenue executive condominium, which should be worth about S\$150m to S\$200m. Had this contract been awarded on 31 March 2015, the company would have reported an even larger net order book of S\$472m to S\$522m.

Completion of East Coast Road Hotel Projects to Provide 2016 Development Gains: Other than the two resorts in the Maldives, Keong Hong also has a 20% stake in Hotel Indigo Singapore Katong with 131 rooms and Holiday Inn Express Singapore Katong with 451 rooms, currently being built at the East Coast Road site awarded in January 2014.

These two hotels in Singapore are expected to be completed in 2016 (FY17), and will provide development gains for Keong Hong following the completion of Twin Waterfalls in 2015. We have earlier forecasted that the two hotels in Singapore will yield Keong Hong a net gain of about S\$21.5m based on initial assumptions of 500 rooms and about 90,000 sq. ft. of retail space. Twin Waterfalls, on the other hand, is expected to yield Keong Hong about S\$18.5m of net profit, via share of associates' income.

Increase Exposure

- Intrinsic Value S\$0.555
- Previous Close S\$0.450

Main Activities

Keong Hong Holdings Limited is a provider of a broad range of building construction services to both private and public sectors for residential, commercial, industrial and institutional projects. The company's track record includes projects in Singapore and the Maldives, as well as stakes in property developments in Singapore.

Financial Highlights

(Y/E Sep) S\$m	FY13	FY14	FY15F
Revenue	146.6	272.9	286.5
Gross Profit	30.4	30.3	22.9
EBIT	25.4	23.9	30.9
PATMI	21.6	19.7	25.4
EPS (S cts)	13.7	11.1	10.9

Source: Voyage Research Estimates

Key ratios (FY15F)

PER	4.1
P/BV	1.0
ROE	27.6%
Debt/Equity	31.2%
Current ratio	1.5

Source: Voyage Research Estimates

Indexed Price Chart

Green (FSSTI)

Black (Keong Hong)



Source: Bloomberg

52wks High-Low 45.5 cents/ 35.0 cents

Number of Shares 232.95 m

Market Capitalization S\$104.8m

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Figure 1: Results Overview

	2Q FY15	1Q FY15	2H FY14	2Q FY14	1Q FY14	1H FY15	FY15F	1H% of Forecasts
Revenue	68.2	73.2	154.9	79.8	61.6	141.4	286.5	49.3%
Gross Profit	6.5	7.6	16.6	5.7	8.4	14.1	22.9	61.6%
EBIT	4.6	7.0	14	4.3	7.2	11.5	29.9	38.6%
PATMI	3.6	5.7	10.9	3.0	6.3	9.3	24.6	37.6%
Gross Margin	9.6%	10.3%	10.7%	7.1%	13.7%	11.6%	8.0%	2.3%
EBIT Margin	6.72%	9.50%	9.00%	5.40%	11.74%	8.40%	10.44%	-0.94%

Source: Company, Voyage Research

Results Overview: 1H FY15 and gross profit came in 49.3% and 61.6% of our full year forecasts. EBIT and PATMI amounted to about 38% and 39% of our forecasts. However, the variance is mainly due to contribution from Twin Waterfalls, which have yet to TOP as of 31 March 2015, and hence did not contribute towards Keong Hong's results in 1H FY15.

While we expect Keong Hong to make about S\$18.5m from the Twin Waterfalls, we have conservatively projected net profit from share of associates of about S\$15.0m for FY15F. This is to provide buffer for forecasting risk, being Keong Hong's first property development project. Moreover, our current forecasts already imply high PATMI growth of about 30% for FY15F.

Excluding this gain, Keong Hong's results still exceeded our expectations by about S\$1m, mainly due to interest income of also S\$1.0m for 1H FY15. Accordingly, we adjusted our forecasts to account for the variance and expect PATMI to come in at S\$25.4m for FY15.

Unchallenged Balance Sheet: We also noted that Keong Hong remains net cash as of 31 March 2015, with cash of S\$31.36m against total debt of S\$19.7m. Other than cash on its balance sheet, Keong Hong has also recently established a S\$150m multicurrency medium term note programme, which presents a source of funding for the company to tap on for its projects. During 1H FY15, the company also enjoyed a net cash inflow from operations of S\$27.4m.

Forecasts and Valuation: In this update, we make no other changes to our forecasts and valuation. Our forecasts are based on the completion of SkyPark Residences in FY16 and the East Coast Road Hotels in FY17. SkyPark Residences is more than 70% sold. Sales this year has been encouraging, with a handful of units sold each month. As such, we expect more than 90% sales by the end of FY16. We are not too concerned about the impact of sales on our valuation, as we have already discounted the net development value of Keong Hong's projects by 40%.

Figure 2: List of Construction Projects and Investments

	Contract Value	Est. TOP	Joint Developer?	Remarks
Singapore				
Paterson 2	70.5	2H 2015	NA	Substantially finished
The Terrasse	110.5	TOP	NA	TOP
Twin Waterfalls	162.5	2H 2015	20%	Fully Sold
Alexandra Central	101.08	TOP	NA	Phase 1: TOP Dec 2014, Phase 2: TOP Apr 2015
J Gateway	161.9	Sep-16	NA	About 30% completed
SkyPark Residences	149.9	2016	20%	About 50% completed. Launched, >70% sold
The Amore	118.0	2016	15%	Launched in Jan 2015, about 25% sold
East Coast Road Hotels	NA	2016	20%	Built by third party contractor
Sembawang Avenue	NA	2018	15%-20%	Pending award of contract
Total	763.9			
Net Order Book as at Mar	322			
Maldives				
Status				
Kooddoo Domestic Airport	Work has commenced for completion in 2016/2018. Appointed Accor as manager on 16 April 2015.			
Tourist Hotel				
Tourist Resort				
Kori Holdings Limited				
Status				
<ul style="list-style-type: none"> - S\$5m convertible loan from Keong Hong to Kori at 5% interest per year, maturing in 2016 Convertible at any time until maturity into 11.9m Kori shares at S\$0.42 each. - Acquired 15m Kori shares at cost of S\$6.825m via married deal on 17 March 2015. 				

Source: Company, Voyage Research

Figure 3: Valuation

S\$ m	FY15F	FY16F	FY17F
Construction Revenue	286.5	300.9	315.9
Construction EBIT	15.9	15.3	15.6
Tax on EBIT	-2.7	-2.6	-2.7
NOPLAT	13.2	12.7	12.9
Invested Capital*	123.7	116.7	138.6
% of Debt	18.1%	27.8%	23.4%
% of Equity	81.9%	72.2%	76.6%
WACC (%)	9.6%	8.9%	9.2%
Capital Charge	11.9	10.4	12.8
Economic Profit	1.3	2.3	0.2
Terminal Value			2.2
Discount Factor	0.91	0.84	0.77
Present Value	1.2	1.9	0.1
Book Value	79.6	Risk Free Rate	2.5%
Explicit Value	3.2	Beta	1.1
Terminal Value	1.7	Market RP	7.7%
Add Discounted RNAV of Projects (fig. 6)	36.8	Cost of Equity	11.0%
Add. Est. Res. Value of Maldives Proj.**	7.4	Cost of Debt	3.0%
Value of Equity	128.8	LT Growth	2.0%
Number of Shares (m)	233.0		
Value per share (S\$)	0.555		

*Based on total assets less investments and amounts due from JVs and associates. **See 17 April 2015 report for assumptions.

Source: Voyage Research

Figure 4: Estimated RNAV

Project	RNAV S\$m	Remarks
Twin Waterfalls	18.5	See previous updates
SkyPark Residences	6.8	See previous updates
The Amore	5.3	See previous updates
East Coast Road Hotel	21.5	See previous updates
Sembawang Avenue	9.3	See previous updates
Total RNAV	61.4	
After 40% Discount	36.8	S\$m

Source: Voyage Research

Figure 5: Financial Forecasts and Estimates

	FY11	FY12	FY13	FY14	FY15F	FY16F	FY17F
Revenue	189.5	167.4	146.6	272.9	286.5	300.9	315.9
Gross Profit	13.8	29.3	30.4	30.3	22.9	24.1	25.3
EBIT	12.2	24.0	25.4	23.9	30.9	27.4	46.4
PATMI	9.4	20.0	21.6	19.7	25.4	22.5	38.2
Total Current Assets	110.9	119.3	117.8	195.5	189.3	208.9	202.0
Total Non-Current Assets	5.0	6.7	14.6	26.2	44.7	71.9	83.5
Total Current Liabilities	83.6	74.2	66.0	138.6	126.6	157.7	135.7
Total Non-Current Liabilities	0.9	0.4	1.1	3.0	2.7	2.7	2.7
Total Equity	31.4	51.4	65.2	80.1	104.7	120.4	147.2
Cash from Operating Activities	10.4	25.3	4.2	47.1	-17.4	23.5	14.2
Cash from Investing Activities	7.1	-4.3	-7.9	-12.5	-8.0	-7.1	-7.0
Cash from Financing Activities	-2.9	4.1	-33.2	-13.2	-8.5	-6.7	-11.5
Receivable Days	120	123	113	75	85	90	90
Payable Days	124	134	141	111	120	120	120
Return on Common Equity	41.6%	50.2%	37.7%	27.3%	27.6%	20.1%	28.7%
Return on Assets	10.4%	16.0%	16.5%	11.1%	11.1%	8.7%	13.5%
Gross Debt / Common Equity	5.6%	1.7%	7.0%	28.1%	31.2%	27.1%	22.2%
Current Ratio	1.3	1.6	1.8	1.4	1.5	1.3	1.5
EPS (S cents)	5.9	12.5	13.7	11.1	10.9	9.7	16.4
BV/Share (S cents)	18.4	31.4	41.3	34.2	44.7	51.5	63.0
P/E	11.2	5.2	4.8	5.3	4.1	4.7	2.7
P/BV	3.6	2.1	1.6	1.3	1.0	0.9	0.7

*EPS and BV based on post-IPO number of shares

Source: Voyage Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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