

Keong Hong Holdings Limited

Key Catalysts Remain Intact

Keong Hong Holdings Limited's (Keong Hong) 2H FY14 revenue grew by 66% year-on-year, leading full year revenue of S\$272.9m to exceed our forecast by a wide margin of 20%. Net profit to shareholders grew by 24% to S\$10.9m in 2H compared to 1H. We reiterate that Keong Hong is poised to TOP its 20% owned and fully sold Twin Waterfalls executive condominium project in 1H 2015. Twin Waterfalls should yield Keong Hong a windfall profit of about S\$18.5m. In all, we expect the company to make a record S\$25m of net profit to shareholders in FY15.

Diversified Strategy Reaping Rewards: Due to higher costs and stiff competition in the construction industry, Keong Hong's gross margin declined from 20.7% in FY13 to 11.1% in FY14. Nonetheless, the company's forays into executive condominium and hospitality development projects mean that the company will still be able to deliver strong profit growth even though gross margin from construction is expected to decline to 8% in FY15. Other than the Twin Waterfalls project, Keong Hong is also investing in a hotel currently in the midst of construction, as well as projects in the Maldives.

Strong Pipeline of New Projects: As at 30 September 2014, Keong Hong had an order book of S\$463m, which will stretch to end 2016 or early 2017. The company is currently pending the award of the construction contract for the executive condominium project at Sembawang Avenue Lot 6138X MK 13. The company had earlier in 2014 won the 22,189.7m² land parcel at a price of S\$214m via a joint venture with FCL Tampines Court Pte Ltd. This project has yet to be launched. Based on the land cost of S\$320 per sq. ft. and construction cost of about S\$275 per sq. ft., we expect this new project to yield about S\$9.3m of net profit for Keong Hong assuming a stake of 20% and a conservative average selling price of S\$700 per sq. ft.

Our View: We see the sharp outperformance in revenue recognized as a positive indication of the company's efforts to offset lower gross margin by ramping up construction and adding capacity. Moreover, the company will most likely revert to profit growth once contribution from its pipeline of property development projects kicks in. In all, we are unfazed by the FY14 results and continue to be positive on Keong Hong.

Increase Exposure

- Intrinsic Value S\$0.520
- Prev Close S\$0.390

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	29.9
PATMI	21.6	19.7	24.6
EPS (S cts)	13.7	11.1	10.5

*FY12 EPS based on 160m shares

Source: Voyage Research Estimates

Key ratios (FY14F)

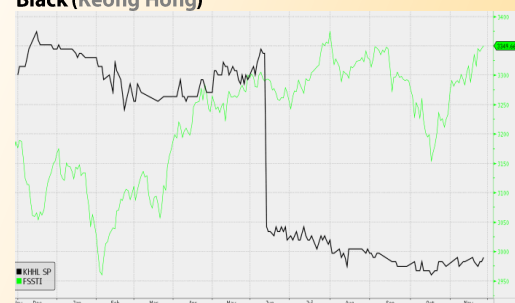
PER	3.7
P/BV	0.9
ROE	26.8%
Debt/Equity	31.4%
Current ratio	1.5

Source: Voyage Research Estimates

Indexed Price Chart

Green (FSSTI)

Black (Keong Hong)



*Keong Hong issued 77.75m bonus shares on 20 Jun 2014. The chart shows the share price unadjusted for bonus issue.

Source: Bloomberg

52wks High-Low	43.5 cents/ 37.0 cents
Number of Shares	233.25 m
Market Capitalization	S\$90.97m

Analyst:

Liu Jinshu, Lead Analyst

jinshu@voyageresearch.com

Tel: 6227 2107

Punggol Central / Edgedale Plans Project Pending Launch: Since our last update on Keong Hong, the company has been awarded the construction for this executive condominium project worth S\$118m. We estimate that this project, which is 15% owned by Keong Hong, may yield the company about S\$5.3m in net profit, based on an average selling price of S\$750 per sq. ft. We reckon that our estimated average selling price remains reasonable or even conservative, given that the Lake Life executive condominium was priced at an average of S\$857 per sq. ft. If we assume an average selling price of S\$850 per sq. ft., the company may accrue net profit of between S\$10m to S\$11m. This project has since been named The Amore and is expected to be launched this month.

New Project – Sembawang Avenue: Other than The Amore, Keong Hong has also via a joint venture with FCL Tampines Court Pte Ltd, won a land parcel at Sembawang Avenue. Assuming an even more conservative selling price of S\$700 per sq. ft., we estimate that the company will reap about S\$9.3m of net profit from this project. This project is more profitable due to its larger land area, and lower land cost. Average land cost per sq. ft. of maximum gross floor area works out to about S\$320, compared to S\$356 for The Amore. We look forward to the launch of this project.

Figure 1: The Amore – Assumptions

Land Area	146,010	sqft
GFA	438,031	sqft
Est. Selling Price	750	S\$/sqft
Est. Value	329	S\$m
Land Cost	-156	S\$m
Construction Cost	-120.0	S\$m
Implied con cost/sqft	274	S\$
Other Expenses	-9.9	3%
Tax	-7.3	
Net Profit	35.4	
Keong Hong's share	5.3	@15%, S\$m

Source: Voyage Research

Figure 2: Sembawang Avenue - Assumptions

Land Area	22,190	sqm
	238,848	sqft
Max GFA	62,131	sqm
	668,774	sqft
Est. Selling Price	700	S\$/sqft
Est. Value	468	S\$m
Land Cost	-214	S\$m
Construction Cost	-184	S\$m
Implied con. Cost/sqft	275	S\$
Other Expenses	-14.0	3%
Tax	-9.5	
Net Profit	46.6	
Keong Hong's share	9.3	@20%, S\$m

Source: Voyage Research

Projects Expected Fetch Positive Margins: Our implied net margins for Keong Hong's executive condominium projects work out to about 10% (especially for The Amore and Sembawang Avenue). The Twin Waterfalls project may yield slightly higher margin of 13%. The margin for SkyPark Residences may not be as high, but we still expect it to be profitable. This project is at the moment about 65% sold and the company can still progressively sell the remaining 35% over the next two years, as TOP is expected in late 2016.

Mindful of Property Sector Headwinds: We are mindful that the property market in Singapore right now is not in the best of shape. However, Keong Hong's forays into property development is ironically expected to help the company offset the effects of lower margins at the construction business. Twin Waterfalls will boost the company's results in FY15 (ending Sep 2015). Depending on how fast the remaining projects are completed, we may see SkyPark Residences, The Amore or the East Coast Road Hotel contributing towards the company's profits in FY16 (ending Sep 2016). In our forecasts, we have been conservative by assuming attractive average selling prices.

Forecasts and Valuation: As a base case, we assume that the company's FY16 results will be boosted by contribution from SkyPark Residences and The Amore. The East Coast Road hotel and Sembawang Avenue executive condominium projects are projected to impact FY17 results. We do not assume any contribution from the Maldives projects at this juncture.

For the construction business, we are projecting 5% annual revenue growth over FY15 to FY17, compared to 10% per annum in our previous update. However, gross margin has been raised to 8%, considering that the company has managed to maintain its gross margin at more than 10% in 2H FY14. Factoring the additional shares issued from the recent bonus issue, we arrived at an intrinsic value of S\$0.520 per share, which is similar to the pre-bonus issue intrinsic value of S\$0.84.

Figure 3: List of Construction Projects and Investments

	Contract Value	Est. TOP	Joint Developer?	Remarks
Singapore				
Paterson 2	70.5	Mar-15	NA	Substantially finished
The Terrasse	110.5	TOP	NA	Completed
Twin Waterfalls	162.5	Jun-15	20%	Fully Sold
Alexandra Central	101.08	Mar-15	NA	
J Gateway	161.9	Sep-16	NA	
SkyPark Residences	149.9	2016	20%	Launched, 65% sold
The Amore	118.0	2016	15%	To be launched Dec 2014 – Work Started
East Coast Road Hotel	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 31 Mar	463			
Maldives	Status			
Kooddoo Domestic Airport	Work has commenced for completion in 2015/2016. Pending further announcements from company			
Tourist Hotel				
Tourist Resort				
Kori Holdings Limited	Status			
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.				

Source: Company, Voyage Research

Figure 4: Results Summary

	2H FY14	1H FY14	2H FY13	1H FY13	2H FY12	1H FY12
Revenue	154.9	118.0	93.8	52.8	72.2	95.2
Gross Profit	16.6	13.7	21.9	8.6	21.0	8.3
EBIT	14.0	9.9	18.3	7.1	17.4	6.5
PATMI	10.9	8.8	15.4	6.2	15.3	4.7
Gross Margin	10.7%	11.6%	23.3%	16.2%	29.1%	8.7%
EBIT Margin	9.0%	8.4%	19.5%	13.4%	24.2%	6.9%

Source: Company, Voyage Research

Figure 5: Valuation

S\$ m	FY15F	FY16F	FY17F
Construction Revenue	286.5	300.9	315.9
Construction EBIT	14.9	15.3	15.6
Tax on EBIT	-2.5	-2.6	-2.7
NOPLAT	12.4	12.7	12.9
Invested Capital*	123.7	116.1	138.0
% of Debt	18.1%	28.0%	23.5%
% of Equity	81.9%	72.0%	76.5%
WACC (%)	9.6%	8.9%	9.2%
Capital Charge	11.9	10.3	12.7
Economic Profit	0.5	2.4	0.2
Terminal Value			3.2
Discount Factor	0.91	0.84	0.77
Present Value	0.4	2.0	0.2
Book Value	79.6	Risk Free Rate	2.5%
Explicit Value	2.6	Beta	1.1
Terminal Value	2.5	Market RP	7.7%
Add Discounted RNAV of Projects (fig. 6)	36.8	Cost of Equity	11.0%
Value of Equity	121.5	Cost of Debt	3.0%
Number of Shares (m)	233.0	LT Growth	2.0%
Value per share (S\$)	0.520		

*Based on total assets less investments and amounts due from JVs and associates

Source: Voyage Research

Figure 6: 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	Fig 2
Total RNAV	61.4	
After 40% Discount	36.8	S\$m

Figure 7: 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	29.9	27.4	46.4
PATMI	9.4	20.0	21.6	19.7	24.6	22.5	38.2
Total Current Assets	110.9	119.3	117.8	195.5	188.7	208.3	201.4
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	104.1	119.8	146.6
Cash from Operating Activities	10.4	25.3	4.2	47.1	-18.3	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	-8.3	-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%	26.8%	20.2%	28.8%
Return on Assets	10.4%	16.0%	16.5%	11.1%	10.8%	8.8%	13.5%
Gross Debt / Common Equity	5.6%	1.7%	7.0%	28.1%	31.4%	27.2%	22.2%
Current Ratio	1.3	1.6	1.8	1.4	1.5	1.3	1.5
EPS (\$ cents)	5.9	12.5	13.7	11.1	10.5	9.7	16.4
BV/Share (\$ cents)	18.4	31.4	41.3	34.1	44.5	51.2	62.7
P/E	9.7	4.5	4.2	4.6	3.7	4.0	2.4
P/BV	3.1	1.8	1.4	1.1	0.9	0.8	0.6

*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.

IMPORTANT DISCLOSURE:

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
