

MONEY TALK

KEONG HONG HOLDINGS (KHHL SP)

Deep Value Contractor With A Diversified Portfolio Of Quality Assets

We initiate coverage on Keong Hong with a BUY and target price of S\$0.565. Keong Hong is a BCA A1 grade contractor with an operational track record of more than 30 years. The company forayed into the property development sector in 2012, and is now starting to see the fruits of its labour with bumper profit set to kick off in FY15 as its property development projects obtain TOP. Its diversification into hotel investments locally and the buoyant tourism sector in the Maldives also brings a recurring stream of future income to the group, underpinning its ability to continuously pay dividends.

INVESTMENT HIGHLIGHTS

- **Deeply valued diversified assets.** We initiate coverage on Keong Hong with a BUY and target price of S\$0.565, which is based on a SOTP valuation. Keong Hong is a BCA A1 graded contractor with an established portfolio of projects which includes Martin Residences, IBIS Hotel, and J Gateway. While sentiments remain lacklustre over construction stocks, we believe the group has executed its diversification well, with exposure in the construction, property development, hospitality and airport operations which is leveraged on tourist arrivals.
- **Earnings visibility until FY16-17.** Keong Hong has interests in seven residential and hotel development projects secured through strategic partnerships with its major customers (property developers). The completion of property development projects such as Twin Waterfalls and Skypark Residences in FY15 and FY16, coupled with a robust orderbook of S\$322m as at 31 Mar 15, should have Keong Hong enjoying good earnings visibility in FY16-17.
- **Raising recurrent earnings.** Through its JVs, Keong Hong is in the midst of developing two hotels at the former Joo Chiat Police Station (to be operated by InterContinental Hotels Group under the brands Hotel Indigo and Holiday Inn Express), an airport hotel and a resort hotel in Maldives. We expect this to bring a steady stream of recurring income to Keong Hong upon completion from FY16 to FY17. We have not factored in rental income contributions from the hotel developments, which may provide upside to our earnings forecast.
- **Consistently paying dividends.** Despite being in a cyclical industry, management has consistently paid out between 18-28% of earnings as dividends. With the expected TOP of the Twin Waterfalls development project and Skypark Residences, we expect dividend yield to rise to 8.7% (S\$0.039) and 7.3% (S\$0.033) in FY15 and FY16 respectively, based on a 25% payout.
- **Strengthening its foothold in the local construction scene.** In Mar 15, Keong Hong acquired 15.12% of Kori Holdings for S\$6.8m. To recall, in Aug 13, Keong Hong also acquired a convertible bond of S\$5m in principal amount of 5% due in year 2016. The convertible bond, if converted may boost Keong Hong's stake in Kori by up to 25.8% of the enlarged share capital. Kori is an emerging underground specialist that provides civil/structural engineering services. Through its strategic relationships with main contractors, Kori has an impressive track record, having secured contracts for all three stages of the Downtown line.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2013	2014	2015F	2016F	2017F
Net turnover	146.6	272.9	298.7	281.7	233.0
EBITDA	27.3	26.8	32.1	31.6	27.4
Operating profit	24.9	24.5	23.7	21.8	16.6
Net profit (rep./act.)	21.9	19.7	36.1	30.7	17.5
EPS (cents)	9.4	8.4	15.5	13.2	7.5
PE (x)	4.7	5.3	2.9	3.4	5.9
P/B (x)	1.6	1.3	1.0	0.8	0.7
Dividend yield (%)	3.8	5.1	8.7	7.4	4.2
Net debt/(cash) to equity (%)	(21.0)	(20.4)	(23.4)	(26.0)	(22.3)
Interest cover (x)	401.6	76.6	14.7	6.6	5.5
ROE (%)	33.0	24.2	33.9	23.7	12.3

*Adjusted for bonus shares issued in FY14
Source: Bloomberg, UOB Kay Hian

BUY

(Initiate Coverage)

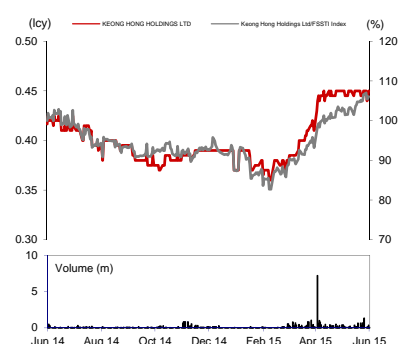
Share Price	S\$0.450
Target Price	S\$0.565
Upside	25.6%

COMPANY DESCRIPTION

Established in 1983, Keong Hong is a BCA A1 grade main contractor serving both the private and public sectors for residential, commercial, industrial and institutional projects. It has since ventured into property development projects and hotel investments in the Maldives.

GICS sector	Industrials
Bloomberg ticker:	KHHL SP
Shares issued (m):	233.0
Market cap (S\$m):	104.8
Market cap (US\$m):	77.8
3-mth avg t'over (US\$m):	0.1

PRICE CHART



Source: Bloomberg

ANALYST

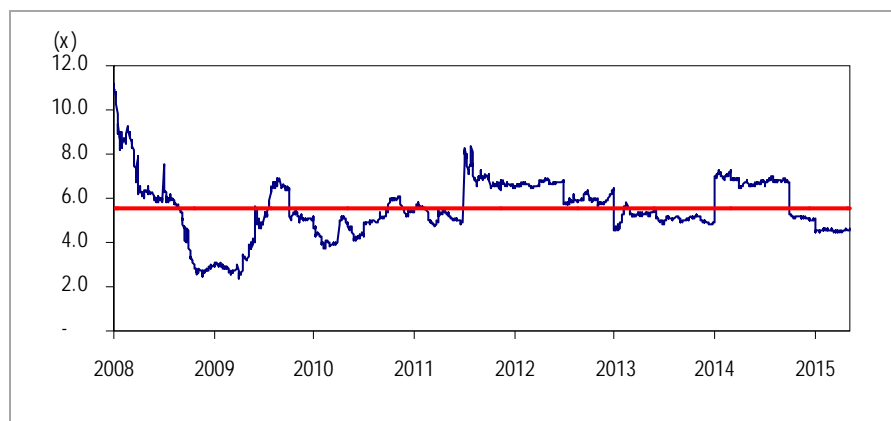
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Valuation

We initiate coverage on Keong Hong with a BUY recommendation and SOTP target price of S\$0.565, implying an upside of 25.6%. While sentiments remain lacklustre over construction stocks, we believe the group has executed its diversification well as the company now has exposure in construction, hospitality as well as airport operations which is leveraged on tourist arrivals.

We have benchmarked Keong Hong's construction business to the long-term construction sector average PE of 5.5x and FY16F construction EPS of S\$0.068, and applied a 20% discount to the RNAV of Keong Hong's local residential and hotel property developments.

FIGURE 1: LOCAL CONSTRUCTION SECTOR LONG-TERM AVERAGE PE OF 5.5X



Source: Bloomberg

FIGURE 2: SOTP VALUATION

	Valuation (S\$/share)	Comments
Construction business	0.372	Based on 5.5x FY16 Construction EPS
Property development RNAV	0.141	20% discount to RNAV
Hotel (Old Joo Chiat police station) RNAV	0.029	20% discount to RNAV
Maldives Investments RNAV	0.023	20% discount to RNAV
TP	0.565	

Source: UOB Kay Hian

Investment Highlights

Keong Hong is a BCA A1 graded contractor with an established track record of projects which includes Pasir Labar Camp Redevelopment (Phase 3), extension and addition and alteration works on Singapore Institute of Management and Tampines Mall.

Earnings visibility in FY16-17. Since its foray into property development in 2012, Keong Hong has expanded its portfolio (to seven residential and hotel development projects) through strategic partnerships with its major customers (established property developers including Frasers Centrepoint Ltd). The completion of property development projects such as Twin Waterfalls in FY15 coupled with a robust orderbook of S\$63m as at 30 Sep 14, provides Keong Hong with good earnings visibility in FY16-17.

FIGURE 3: EARNINGS VISIBILITY TILL FY16-17

	2014F	2015F	2016F	2017F	2018F
Revenue recognised for contracts at start of FY13					
Revenue recognised for contracts won in FY13					
Revenue recognised for contracts won in FY14					
TOP of Twin waterfalls					
TOP of Skypark Residences					
TOP of EC at Punggol Central					
TOP of EC at Sembawang Ave (to be launched in 4Q15)					

Source: UOB Kay Hian

Keong Hong currently has interests in four local executive condominium (EC) projects.

FIGURE 4: KEONG HONG HAS INTERESTS IN 4 LOCAL EC PROJECTS

Project	Keong Hong's % stake	Status	Est TOP	Estimated developer net profit to KH (\$m)	Comments
Twin Waterfalls	20%	Near 100% sold	FY15	17.5	728 units EC in Punggol. Keong Hong is also the main contractor (Contract sum: S\$162m)
Skypark Residences	20%	73% sold	FY16	14.9	506 units EC in Sembawang. Keong Hong is also the main contractor (Contract sum: S\$149.9m)
EC at Punggol Central	15%	25% sold	FY17	5.7	
99 years leasehold land parcel at Sembawang Ave for the development of an EC	20%	To be launched in 4Q15	FY18	10.6	Located next to Skypark Residences (assuming a 7-10% discount to the ASP of Skypark)

Source: UOB Kay Hian

FIGURE 5: BUMPER PROFITS IN FY15-18 FROM PROPERTY DEVELOPMENT PROJECTS

Project	KH % stake	Net saleable area (sqft)	% sold	Land costs (\$ psf)	Construction costs (\$ psf)	Others (eg. stamp duty) (\$ psf)	Financing cost (\$ psf)	ASP (\$ psf)	Estimated net profit to KH (\$m)
Twin Water falls	20%	812,596	100%	270	250	27	21	698	17.5
Skypark Residences	20%	654,570	73%	324	250	30	34	776	14.9
EC at Punggol Central	15%	438,031	25%	356	250	32	36	780	5.7

Source: UOB Kay Hian

We expect Keong Hong to enjoy bumper profits in FY15-18 as it recognises property development profits when the respective ECs obtain TOP. We forecast Keong Hong to book in development profits of about S\$38m from FY15-18 thanks to the three soon-to-be-launched EC projects.

While we expect profits from Skypark Residences to be booked in FY16, we note that the expected TOP date is in Sep 16, which is very near the financial year end of Keong Hong (30 Sep). As such, if the TOP of Skypark Residences is obtained in Oct 16, the development profits of Skypark Residences (about S\$14.9m) will be booked in FY17, due to the rule that earnings can only be recognised upon completion.

Through its JV with FCL Tampines Court, Keong Hong holds a 20% stake in another site in Sembawang Ave (directly next to Skypark Residences) for the development of an EC. While the site will only be launched in 4Q15, we estimate Keong Hong to recognise a net profit of about S\$10.6m when the EC is completed (est. FY18/19). We have assumed a slightly lower selling price for the site compared with our price estimate for Skypark Residences, to account for the weaker property sentiments.

FIGURE 6: ESTIMATED NET PROFIT FROM EC PROPERTY DEVELOPMENT AT SEMBawang AVE

Project	KH % stake	Assumed Net saleable area (sqft)	Land costs (\$ psf)	Construction costs (\$ psf)	Others (eg. stamp duty) (\$ psf)	Financing cost (\$ psf)	Assumed ASP (\$ psf)	Estimated net profit to KH (\$m)
EC at Sembawang Ave	20%	668,774	320	250	30	34	730	10.6

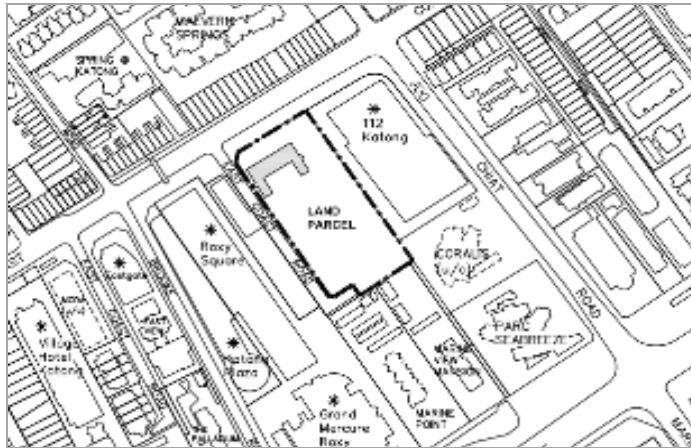
Source: UOB Kay Hian

Boosting recurrent earnings through hotel investments. Through its various JVs, Keong Hong currently has interests in a local hotel redevelopment (at the former Old Joo Chiat Police Station) and is also in the midst of expanding the Kooddoo domestic airport, and developing an airport hotel and a resort hotel in the Maldives.

Hotel development at former Old Joo Chiat Police Station. In Jan 14, through its JV with Master Contract Services and Asia Development, Keong Hong successfully tendered for land at East Coast Road for the development of a hotel. We expect the JV to allocate about 20% of the total leasable land for retail purposes and the remaining 80% to be used for hotel operations. The site will house two hotel brands managed by InterContinental Hotels Group (IHG) - a 131-room Hotel Indigo (this will be Singapore's first Hotel Indigo) and a 451-room Holiday Inn express. Hotel Indigo is a fast-growing chain of boutique hotels with design features that reflect the area's culture and history. Given that the hotel site also houses the historically and architecturally significant former Joo Chiat Police station (which will be restored as part of the development), we believe the brand will be a natural fit to the area.

Strategically located near shopping malls and the upcoming Paya Lebar commercial hub, we noted that occupancy rates and average room rates (ARR) for hotels in the vicinity have been strong. For eg. Grand Mercure Roxy Hotel (576-room 4-star hotel) has enjoyed a high average occupancy rate of 89% and ARR of S\$159.4 between 2004 and 2013. With very few land parcels near the Paya Lebar/Eunos MRT station zoned for hotel development coupled with the upcoming Paya Lebar commercial Hub, we believe the occupancy rates and ARR of the JV's hotel development will remain strong.

FIGURE 7: PRIME LOCATION OF HOTEL REDEVELOPMENT (LOCATED NEAR MANY EATERIES AND 2 SHOPPING MALLS)



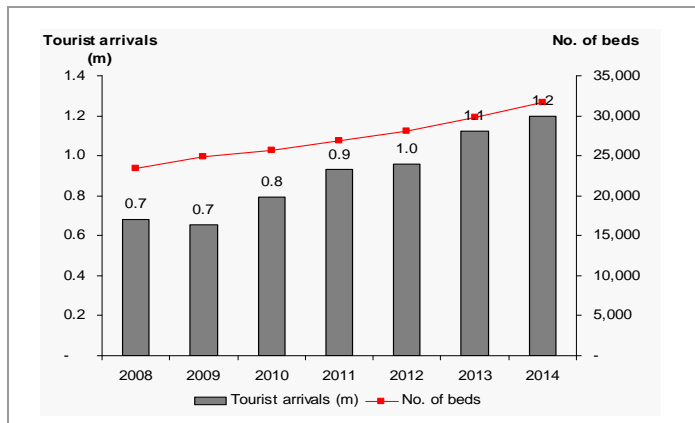
Source: URA, UOB Kay Hian

GFA (sqft)	266,041
Tenure	99 years
Est no. of rooms	582 (3-4 stars hotel, will consist of 2 hotel brands)
TOP	End of 2016 (FY17)
Keong Hong's stake	20%
RNAV attributable to Keong Hong	8.6
RNAV/share	S\$0.037

The hotel is expected to be completed by end-16, and we expect it to start contributing to Keong Hong from FY17. We have not factored any contributions from the hotel in FY17, which could provide further upside to our earnings forecast.

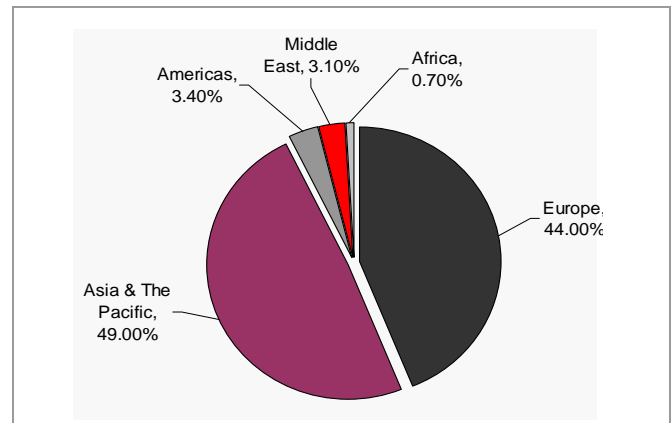
Buoyant hospitality sector in the Maldives. As a nation of coral islands located on the Indian Ocean, the Maldives' tropical climate, white beaches and rich marine environment has made it an attractive tourist destination for relaxation, honeymoon and diving. Tourist arrivals to the Maldives have grown at a 2008-14 CAGR of 9.8% to 1.2m at end-14. However, the number of beds in the Maldives has only grown at a CAGR of 5.2% in 2009-14 as average occupancy rates remained healthy at 74.5%.

FIGURE 8: TOURIST ARRIVALS HAVE GROWN AT A CAGR OF 9.8% IN 2009-14, BUT NUMBER OF BEDS HAS ONLY GROWN AT A CAGR OF 5.2% IN 2009-14



Source: Ministry of Tourism, Republic of Maldives

FIGURE 9: TOURIST ARRIVALS TO THE MALDIVES



Source: Ministry of Tourism, Republic of Maldives

FIGURE 10: NUMBER OF BEDS IN THE MALDIVES HAS GROWN AT A CAGR of 5.2% IN 2009-14

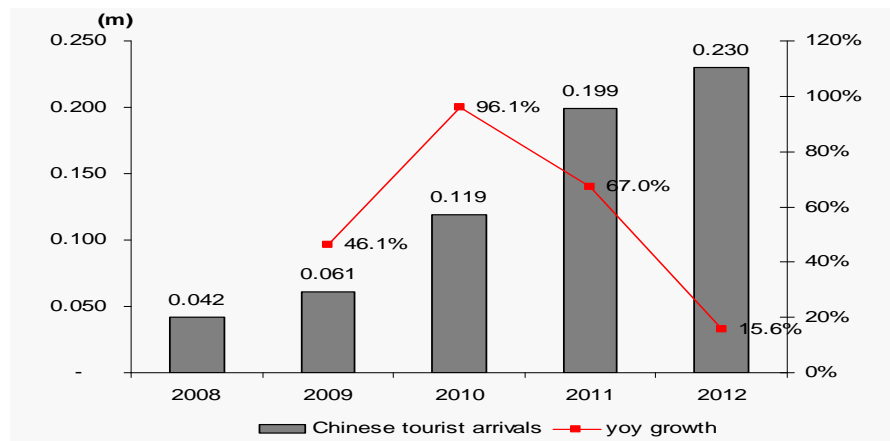
No. of beds in	2008	2009	2010	2011	2012	2013	2014
Resorts/marinas	19,860	20,942	21,342	22,120	22,889	23,469	N.A.
Hotels	1,110	1,368	1,449	1,603	1,627	1,708	N.A.
Guest Houses	400	432	476	659	1,101	1,918	N.A.
Safari Vessels	2,094	2,206	2,434	2,514	2,503	2,716	N.A.
Total	23,464	24,948	25,701	26,896	28,120	29,811	31,737

* 2014 breakdown not available at time of report.

Source: Ministry of Tourism, Arts and Culture, Republic of Maldives

We expect Maldives' tourism industry to continue to benefit from the growing wealth effect of Asian countries, with reference to China in particular. Chinese tourist arrivals to the Maldives have grown at 2008-12 CAGR of 53.3% to 0.23m, accounting for 24% of total tourist arrivals in the Maldives in 2012. This came on the back of the rising affluence of Chinese consumers and easier access to the Maldives from China with more flight frequencies (two charter flights from China, Hainan Airways and China Southern Airlines, have been changed to scheduled flights).

FIGURE 11: CHINESE TOURIST ARRIVALS TO THE MALDIVES HAVE GROWN AT A CAGR OF 53.3% IN 2008-12



Source: Ministry of Tourism, Republic of Maldives

To capitalise on the booming tourism sector in the Maldives, Keong Hong has set up a JV (Keong Hong's stake in JV: 45%) to expand the Kooddoo domestic airport and develop an airport hotel on Kooddoo Island and a resort hotel on Maamutaa Island in Gaafu Alifu Atoll.

FIGURE 12: KEONG HONG'S PROJECTS IN THE MALDIVES

Maldives Project	Lease period (years)	Description	Est number of rooms	Expected date of completion
Kooddoo Domestic Airport	25	Lease of a domestic airport in Kooddoo in Gaafu Alifu Atoll, (expansion, development and operation of airport)	N.A	1Q15 (2QFY15)
Tourist Hotel	50	Lease of land for development and operation of hotel in Kooddoo in Gaafu Alifu Atoll	68	Dec 15 (2QFY16)
Tourist Resort	50	Lease of island of Maamutaa in Gaafu Alifu Atoll, for operation of resort	120	end of 2017 (FY18)

Source: Keong Hong

The construction of the airport, hotel and resort will likely be undertaken by Keong Hong. The company was previously involved in the construction of a 94-villa 5-star resort hotel developed by Bonvest Group on Falhumaafushi Island in 2012.

FIGURE 13: KEONG HONG'S PROJECTS IN THE MALDIVES



Source: The Residences Maldives, Bonvest

Keong Hong's JV company has also appointed Accor to manage its two hotels in Maldives. In view of the small scale of the airport tourist hotel and Kooddoo domestic airport, we have not factored in any earnings contribution from Keong Hong's Maldives investment in FY15 and FY16. We are however, very excited about the 120-room tourist resort which we believe will provide potential capital appreciation and a steady flow of recurring income for Keong Hong when it is completed by FY18.

For a gauge on the potential profit and valuation of the future Maldives resort, we refer to two recent acquisitions made by CDL Hospitality Trust in the last two years.

In Jan 13, CDL Hospitality Trust acquired a 113-villa 5-star resort, Angsana Velavaru from Banyan Tree for US\$71m. Angsana Velavaru is located on the island of Velavaru, in Dhaalu Atoll (about 140km from Malé International Airport). The acquisition price of US\$71m translates to a price of US\$0.63m (S\$0.77m) per key.

FIGURE 14: DETAILS OF ANGSANA VELAVARU

Branding	Angsana	
Number of Villas	79 Beach Villas, 34 Water Villas	
Registered Land Area	67,717 sqm	
Leasehold	50 years commencing from 26 Aug 1997 (about 35 years remaining at time of acquisition)	
Location	Dhaalu Atoll	
RevPar (Jan12-Sep12)	US\$279	
CDL's purchase price per key	US\$0.628m (S\$0.768m)	

Source: CDL's Hospitality Trust

In Dec 13, CDL Hospitality Trust expanded its footprint in Maldives with the acquisition of a 37-villa 5-star luxury resort Jumeirah Dhevanafushi for US\$59.6m. Jumeirah Dhevanafushi is located on Meradhoo Island in the Gaafu Alifu. The acquisition price of US\$59.6m translates to a price of US\$1.6m (S\$2m) per key.

FIGURE 15: DETAILS ON JUMEIRAH DHEVANAFUSHI

Branding	Jumeirah	
Number of Villas	37 (two beachfront villas under construction and expected to be completed by 2014)	
Registered Land Area	53,576 sqm	
Leasehold	50 years commencing 15 Jun 06 (about 42 years remaining at time of acquisition)	
RevPar (9M13)	US\$754	
Location	Gaafu Alifu Atoll	
CDL's purchase price per key	US\$1.6m (S\$2m)	

Source: CDL's Hospitality Trust

FIGURE 16: CDL HOSPITALITY TRUST'S RECENT PURCHASES IN THE MALDIVES

Resorts	CDL Hospitality Trust	
	Angsana Velavaru	Jumeirah Dhevanafushi
RevPar (US\$)	279	754
Price/key (S\$m)	0.8	2.0

Source: CDL Hospitality Trust, UOB Kay Hian

We estimate RevPar of Keong Hong's resort to be about US\$400 when it is completed, based on comparable resorts in the area and management guidance. Adjusting for the price/key (S\$m) of CDL Hospitality Trust's two recent Maldives transactions based on the premium/discount to Keong Hong's JV resort estimated RevPar, we derived a price/key of about S\$1.1m.

FIGURE 17: ADJUSTED PRICE/KEY

	CDL Hospitality Trust	
	Angsana Velavaru	Jumeirah Dhevanafushi
RevPar relative to Keong Hong's JV resort	0.7x	1.9x
Adjusted Price/key (S\$m)	1.10	1.07

Source: UOB Kay Hian

Maldives resort could be worth about S\$120m. Based on a back-of-the-envelope calculation, we estimate Keong Hong's JV Maldives resort could be worth about S\$120m when completed.

FIGURE 18: KEONG HONG'S JV RESORT COULD BE WORTH ABOUT S\$120M WHEN COMPLETED

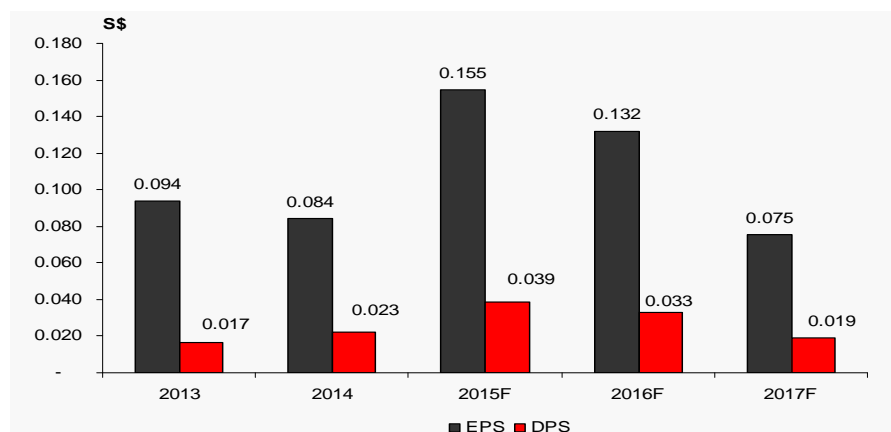
Resorts	Keong Hong's JV Resort	Comments
No. of rooms	120	
Price/key (S\$m)	1	10% discount off adjusted Price/key of S\$1.1m to account for Keong Hong's limited track record in hotel developments
FV of resort (S\$m)	120	

Source: UOB Kay Hian

Keong Hong has estimated the total construction cost for the airport expansion, tourist airport hotel and tourist resort to be S\$100m-120m. As the resort will only be completed in FY18, and the terms of the hotel management contract has not been finalised, we have not factored in contributions from the Maldives resort into our earnings forecasts.

Consistently paying out dividends. Despite being in a cyclical industry, management has consistently paid out between 18-28% of earnings as dividends.

FIGURE 19: DIVIDEND YIELD SET TO RISE ON DEVELOPMENT PROFITS FOR FY15-16.



* EPS, DP has been adjusted for a bonus issue in FY14.

Source: Keong Hong, UOB Kay Hian

With the expected TOP of property development projects Twin Waterfalls and Skypark Residences in FY15 and FY16 respectively, we expect dividend yield to rise to 8.7% (DPS: S\$0.039) and 7.3% (DPS: S\$0.033) respectively in FY15 and FY16 based on a 25% payout ratio.

Strengthening its footing in the local construction scene. In Mar 15, Keong Hong announced that it had acquired 15.12% of Kori Holdings for S\$6.8m (or S\$0.455/share). To recall, in Aug 13, Keong Hong also acquired a convertible bond of S\$5m in principal amount of 5% due in 2016. The convertible bond may be converted into 11.9m ordinary shares for Kori (10.71% of the enlarged share capital) at S\$0.42/share. Following which, Keong Hong will hold up to 25.8% of the enlarged share capital.

Kori is an emerging underground specialist in the local construction scene with over 30 years of experience in structural steel and civil/structural engineering. Due to the complementary business natures, we expect the collaboration between Keong Hong and Kori to bring about potential synergies for both companies (cost and revenue synergies in terms of extension of service offerings).

Through its strategic relationships with main contractors, Kori has an impressive track record in managing local railway projects, having secured contracts for all three stages of the Downtown Line.

FIGURE 20: KORI HAS AN ESTABLISHED TRACK RECORD IN MANAGING LOCAL RAILWAY CONTRACTS

MRT Line	Contract No.	Contract sum (\$m)	Main Contractors
DTL1	C905	5.4	Shimizu Corp
DTL1	C906	13.6	Sembawang Engineers & Constructors
DTL1	C901	13.8	Hock Lian Seng
DTL1	C902	10.1	Shanghai Tunnel Engineering
	Total	42.9	
DTL2	C921	17.4	Ssanyong Engineering & Construction
DTL2	C919	12.6	Sembawang Engineers & Constructors
DTL2	C915	11.9	SK E&C
DTL2	C920	14.3	Shanghai Tunnel Engineering
DTL2	C921	2.5	Ssanyong Engineering & Construction
	Total	58.7	
DTL3	C928	45.3	Sato Kogyo (S) Pte Ltd
DTL3	C930	10.1	SK E&C
DTL3	C927	13.3	Cooperativa Muratori Cementisti Di Ravenna
DTL3	C926	12.2	Cooperativa Muratori Cementisti Di Ravenna
	Total	80.9	
CCL2	C823	15.0	Nishimatsu Construction
CCL1	C828	1.9	Nishimatsu Construction
CCL3	C853	6.0	Taisei Corp
	Total	22.9	

Source: Kori, UOB Kay Hian

We believe that Kori's lacklustre FY14 performance (Net profit: -80% yoy) was likely due to the timing differences for projects awarded. Kori has recently been awarded S\$30m worth of contracts from various main contractors from the Thomson-East Coast MRT Line for strutting works. These contracts are expected to commence from 2Q15 and will have a positive impact on Kori's financial performance in FY15.

FIGURE 21: KORI HAS WORKED AT LEAST ONCE WITH 6 OF THE 12 SUCCESSFUL MAIN CONTRACTORS FOR THE THOMSON LINE

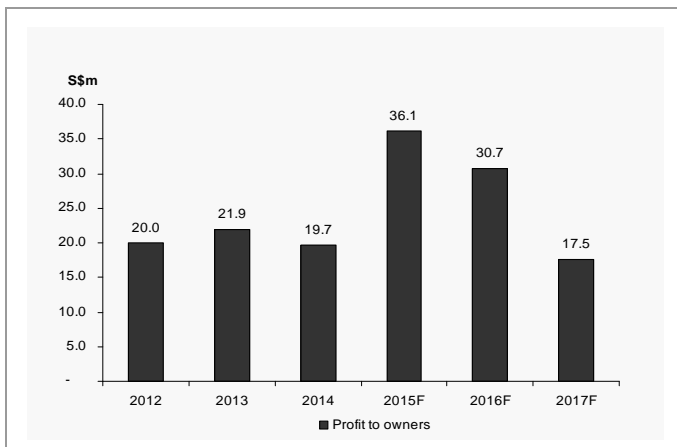
Ref	Description	Main contractor	Contract Sum (\$m)	Construction start date	Past collaborations with Kori
T209	Design And Construction Of Lentor Station And Construction Of Tunnels	China Railway No. 5 Engineering Group Co. Ltd	247	1Q14	
T221	Construction of Havelock Station	Gammon Construction	210	1Q14	Sentosa Gateway Avenue in Singapore
T210	Design and Construction of Mayflower Station		174	1Q14	
T203	Construction of Woodlands Station and Cut and Cover Tunnels	GS Engineering & construction Corp	292	1Q14	
T201	Construction of Mandai Depot	Jurong Primewide Pte Ltd	329	1Q14	
T208	Construction of Springleaf Station and Tunnels	Leighton Contractors (Asia) Ltd -- John Holland Pty Ltd JV	383	1Q14	
T202	Construction of Woodlands North Station and Tunnels	Penta ocean Construction Co.	337	1Q14	Newater Infrastructure Plan Extension (NIPE) Contract C4
T211	Design and Construction of Sin Ming Station and construction of tunnels		454	1Q14	
T213	Construction of Caldecott Station and Tunnels	Samsung C&T Corp	285	Aug 13	
T212	Construction Of Upper Thomson Station and Tunnels	Sato Kogyo (S) Pte Ltd	374	1Q14	Downtown Line Stage 3: Bedok Town Park Station and its associated tunnels
T206	Construction of Tunnels between Woodlands Station and Woodlands Avenue 12 including Crossover Tunnels and Reception Tunnels Mandai Depot	Shanghai Tunnel Engineering	421	Aug 13	Downtown Line Stage 2: Newton Station and tunnels from Little India Station to Newton Station Downtown Line Stage 1: Promenade Station
T207	Construction of tunnels from Crossover tunnels to Springleaf Station	Shimizu Corp	190	1Q14	Downtown Line Stage 1 : Works between Promenade Station and Marina Bay Station Pahang-Selangor Water Tunnel
T217	Construction of Napier Station and Tunnels	Sinohydro Corp	189	1Q14	
T226	Construction of Marina Bay Station and Tunnels	Tasei Corp	425	1Q14	Circle Line Stage 3 Marymount Station Jimah Power Station

Source: Kori, LTA, UOB Kay Hian

Earnings And Financials

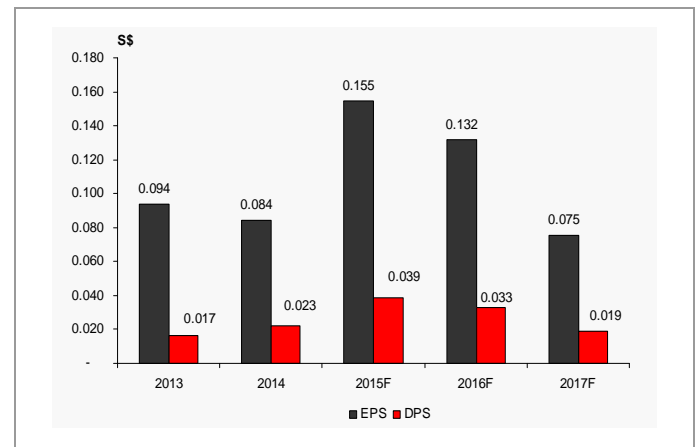
We expect Keong Hong to record bumper profits in FY15 and FY16 with the recognition of development profits of S\$17.5m and S\$14.9m from the TOP of Twin Waterfalls and Skypark Residences respectively. Since its IPO in 2011, management has consistently paid out between 18-28% of earnings as dividends. Given the projection of bumper profits in FY15 and FY16, we expect dividend yield to rise to 8.7% (DPS: S\$0.039) and 7.3% (DPS: S\$0.033) respectively in FY15 and FY16 based on a 25% payout.

FIGURE 22: BUMPER PROFIT YEARS - FY15 AND FY16



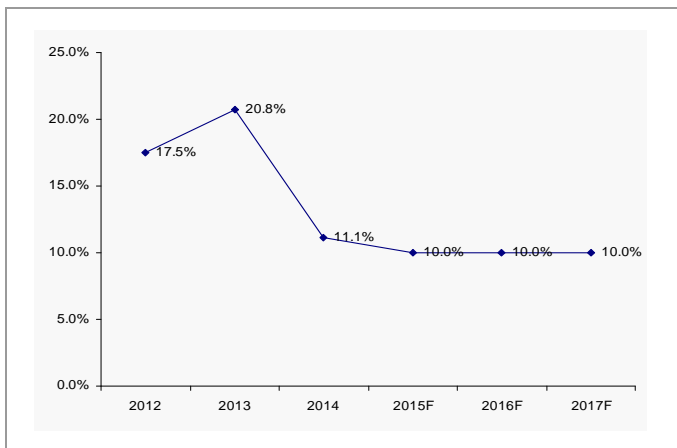
Source: UOB Kay Hian

FIGURE 23: DIVIDEND YIELD SET TO RISE ON DEVELOPMENT PROFITS FOR FY15-16.



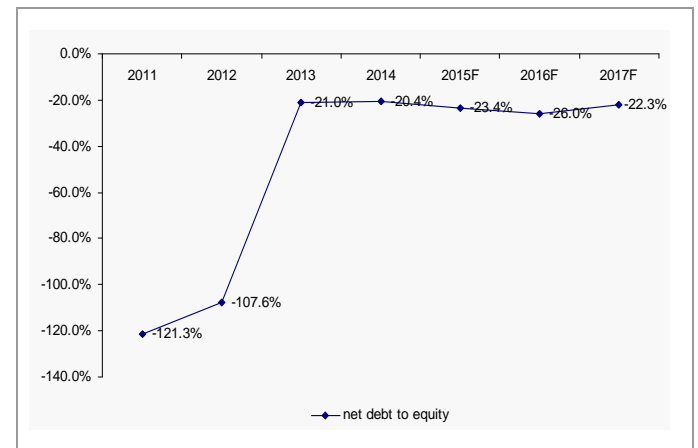
Source: UOB Kay Hian

FIGURE 24: GP MARGINS TO STABILISE



Source: UOB Kay Hian

FIGURE 25: BALANCE SHEET TO REMAIN STRONG



Source: UOB Kay Hian

While Keong Hong has a couple of property developments and hotel investments in the pipeline, we expect its balance sheet to remain strong due to strong cashflow generation from its construction business and proceeds (est S\$30m-35m in FY15 and FY16) from the TOP of its property development projects (Twin Waterfalls and Skypark Residences).

Company Profile

Keong Hong is a BCA A1 grade contractor with an established track record spanning over 30 years. The company provides construction services to both private and public sectors and has a strong portfolio of projects which includes the IBIS Hotel at Bencoolen Street, Vicplas at Joo Koon Circle and SIM at Clementi Road.

FIGURE 26: OVER 30 YEARS OF OPERATING IN LOCAL CONSTRUCTION

Residential	Commercial	Industrial	Institutional
Martin Residences at Kim Yam Road (D&B)	Sime Darby Performance Centre	Vicplas at Joo Koon Circle	SIM at Clementi
The Parvis (D&B)	IBIS Hotel at Bencoolen Street	AvaPlas at Changi South Industrial Estate	Toa Payoh Nursing Home
J Gateway		Makino at Gul Ave	Mount Alvernia Hospital Sisters' Accommodation
8@Woodleigh (D&B)			

Source: Keong Hong

Since 2012, Keong Hong has also expanded into the construction of property developments, with interests in seven residential and hotel development projects secured through strategic partnerships.

FIGURE 27: SOME OF KEONG HONG'S PROPERTY DEVELOPMENT PROJECTS: SKYPARK RESIDENCES AND TWIN WATERFALLS



Source: Keong Hong

Risks

Dependence on the local construction market. Keong Hong derives a bulk of its construction earnings from Singapore. Hence, a slowdown in the local construction industry may hurt earnings.

Rise in labour costs. As with all local construction companies, Keong Hong faces the risks of rising labour costs such as the rise in foreign workers' levy. To improve margins, Keong Hong typically tries to provide value-added services such as bidding for design and build contracts (instead of pure construction contracts).

Dependence on Singapore and Maldives tourism sectors. With its investment in a local hotel development at East Coast Road, and a tourist airport hotel and resort hotel in Maldives, Keong Hong will be dependent on the tourism sector of Singapore and the Maldives going forward.

MONEY TALK

PROFIT & LOSS

Year to 30 Sep (\$m)	2014	2015F	2016F	2017F
Net turnover	272.9	298.7	281.7	233.0
EBITDA	26.8	32.1	31.6	27.4
Deprec. & amort.	2.3	8.4	9.8	10.8
EBIT	24.5	23.7	21.8	16.6
Net interest income/(expense)	(0.3)	(0.8)	(2.4)	(2.2)
Associate contribution	(0.6)	17.5	14.9	5.7
Pre-tax profit	23.6	40.3	34.3	20.2
Tax	(4.2)	(3.9)	(3.3)	(2.5)
Minorities	(0.3)	0.4	0.3	0.2
Net profit	19.7	36.1	30.7	17.5
Net profit (adj.)	19.7	36.1	30.7	17.5

CASH FLOW

Year to 30 Sep (\$m)	2014	2015F	2016F	2017F
Operating	47.1	13.7	26.4	17.6
Pre-tax profit	23.6	40.3	34.3	20.2
tax expense	(3.8)	(3.9)	(3.3)	(2.5)
Deprec. & amort.	2.3	8.4	9.8	10.8
Working capital changes	25.0	(14.5)	(1.8)	(7.4)
Non-cash items	0.5	-	-	-
Other operating cashflows	(0.5)	(16.7)	(12.5)	(3.5)
Investing	(12.5)	24.0	19.2	(12.1)
Capex	(17.7)	(11.8)	(11.7)	(13.0)
Interest and dividend income	1.6	35.8	30.9	0.8
Others	3.6	-	-	-
Proceeds from sale of assets				
Financing	(13.2)	2.6	(35.7)	(11.5)
Dividend payments	(4.7)	(9.0)	(7.7)	(4.4)
Issue of shares	(0.3)	-	-	-
Proceeds from borrowings	17.8	31.4	1.0	(4.1)
Others/interest paid	(26.1)	(19.8)	(29.1)	(3.0)
Net cash inflow (outflow)	21.4	40.2	9.9	(6.1)
Beginning cash & cash equivalent	17.0	38.5	78.7	88.6
Changes due to forex impact	0.2	(0.1)	-	-
Ending cash & cash equivalent	38.5	78.7	88.6	82.5
Fixed deposits pledged	0.2	0.2	0.2	0.2
cash at balance sheet	38.8	78.9	88.8	82.7

BALANCE SHEET

Year to 30 Sep (\$m)	2014	2015F	2016F	2017F
Property, plant, equipment	15.2	18.6	20.5	22.7
Other LT assets	11.0	11.0	11.0	11.0
Cash/ST investment	38.7	78.9	88.8	82.7
Other current assets	156.8	160.1	167.8	164.8
Total assets	221.7	268.6	288.1	281.2
ST debt	19.5	50.9	51.9	47.8
Other current liabilities	119.1	107.2	102.3	86.2
LT debt	2.8	2.8	2.8	2.8
Other LT liabilities	0.2	0.2	0.2	0.2
Shareholders' equity	79.6	106.7	129.8	142.9
Minority interest	0.5	0.9	1.2	1.4
Total liabilities & equity	221.7	268.6	288.1	281.2

KEY METRICS

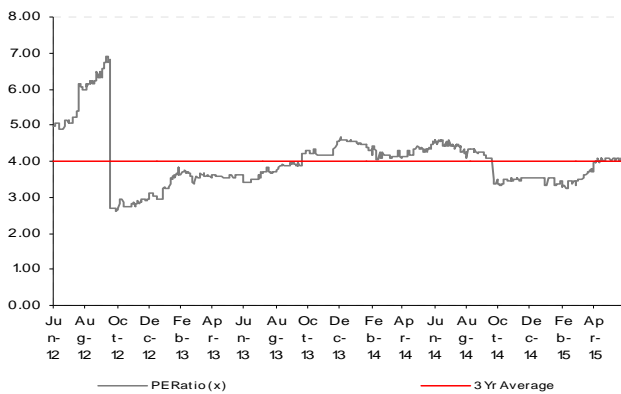
Year to 30 Sep (%)	2014	2015F	2016F	2017F
Profitability				
EBITDA margin	9.8	10.7	11.2	11.8
Pre-tax margin	8.7	13.5	12.2	8.7
Net margin	7.2	12.1	10.9	7.5
ROA	8.7	13.6	10.8	6.3
ROE	24.2	33.9	23.7	12.3
Growth				
Turnover	86.1	9.4	(5.7)	(17.3)
EBITDA	(1.9)	19.9	(1.6)	(13.1)
Pre-tax profit	(7.3)	70.8	(14.8)	(41.3)
Net profit	(10.1)	83.4	(14.8)	(42.9)
Net profit (adj.)	(10.1)	83.4	(14.8)	(42.9)
EPS (adj)	(39.8)	83.4	(14.8)	(42.9)
Leverage				
Debt to total capital	10.1	20.0	19.0	18.0
Debt to equity	27.9	49.9	41.8	35.1
Net debt/(cash) to equity	(20.4)	(23.4)	(26.0)	(22.3)
Interest cover (x)	76.6	14.7	6.6	5.5

MONEY TALK

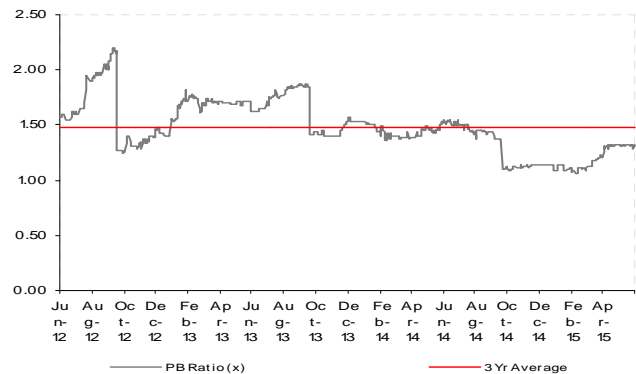
Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	9/13	9/14	9/15E	9/16E	
11/6/2015	100%	0%	0%	P/E	4.2	3.4	4.1	4.6	
Target Price				EV/EBIT	3.1	3.2	-	-	
Upside			24%	EV/EBITDA	2.8	2.9	-	-	
				P/S	0.6	0.2	0.4	0.3	
				P/B	1.4	1.1	1.0	0.9	
				Div Yield	4.3%	5.0%	-	-	
Income Statement	9/13	9/14	9/15E	9/16E	Profitability Ratios %				
Revenue	147	273	-	-	Gross Margin	20.8	11.2	-	-
Gross Income	30	31	-	-	EBITDA Margin	18.4	9.1	-	-
Operating Income	24	23	-	-	Operating Margin	16.7	8.3	-	-
Pretax Income	25	24	-	-	Profit Margin	14.9	7.2	8.9	7.5
Net Income Adjusted*	22	20	-	-	Return on Assets	16.9	11.1	11.1	8.7
EPS Adjusted	0.09	0.11	-	-	Return on Equity	38.1	27.3	27.6	20.1
Dividends Per Share	0.02	0.02	-	-					
Payout Ratio (%)	18	23	-	-					
EBITDA	27	25	-	-					
Peer Comparison	Ticker	Price @ 11 Jun 15	Market Cap (US\$m)	----PE----		----P/B----		Yield FY14F (%)	
				FY13 (x)	FY14F (x)	FY13 (x)	FY14F (x)		
Lian Beng Group Ltd	LBG SP	0.545	206	4.0	3.3	0.9	0.7	1.8	
Sim Lian Group Ltd	SLG SP	0.87	650	5.0	5.1	1.0	0.9	5.3	
Koh Brothers Group Ltd	KOH SP	0.315	97	6.7	4.7	0.6	0.6	1.6	
Chip Eng Seng Corp Ltd	CHIP SP	0.79	365	7.0	1.8	1.0	0.7	5.1	
Tiong Seng Holdings Ltd	TSNG SP	0.138	94	11.6	n.a.	0.4	0.5	1.4	
Average				6.9	3.7	0.8	0.7	3.0	
Keong Hong Holdings Ltd	KHHL SP	0.45	78	4.9	4.1	1.6	1.3	4.3	

Price Earnings Ratio (3 years average)



Price to Book Ratio (3 years average)



Source: Bloomberg, UOB Kay Hian

Technical View



Source: Nextview

Keong Hong Holdings (KHHL SP, 5TT)

The weekly chart reveals a narrow trading range of S\$0.43-0.46. The next support level could be at S\$0.40 should the stock retrace marginally.

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