

Keong Hong Holdings Limited

Expanding into the Maldives for the Long Term

Keong Hong Holdings Limited (Keong Hong) announced on 16 April 2015 the appointment of Accor to manage its first two hotel properties in the Maldives. The news suggest that the development of the hotel and resort is taking shape smoothly and will likely be a success by riding on Accor's global hotel booking system, network and other resources to reduce execution risks and rapidly ramp up occupancy from the onset. We adjust our valuation to take into account contribution from this development and arrived at a revised valuation of S\$0.555 per share.

Prior Experience in the Maldives: Keong Hong first entered into the Maldives market in 2009 when it took on a project to construct a resort development at Falhumaafushi Island at Gaafu Alifu Atoll in the Maldives for S\$83.6m. The project was completed in 2012. Subsequently in August 2013, Keong Hong secured the leases to develop and operate the Kooddoo Domestic airport, a tourist hotel and a tourist resort on Gaafu Alifu Atoll from the government.

Joint Venture for US\$120m Project: The leases cumulated in the formation of Pristine Islands Investment Pte. Ltd. (Pristine), a joint venture company between Keong Hong, Sansui Holding Pte. Ltd., BRC Asia Limited, L3 Development Pte. Ltd. and Hotels & Resort Construction Pvt. Ltd., on 17 July 2014 to own, develop and operate the three projects above at an estimated development cost of US\$120m. Keong Hong owns 45% of Pristine, with the other partners owning 10% to 15%.

To Contribute From 2016 Onwards: The tourist hotel has been named Mercure Maldives Kooddoo Resort (Mercure) and shall comprise of 68 villas on completion in 2016. Offering mid-scale and best value accommodation, the Mercure resort shall be the only Maldivian beach resort directly accessible by domestic flight. Other beach resorts are currently reachable only by an additional speedboat journey. The tourist resort has been named Pullman Maldives Maamutaa Resort (Pullman) and shall have 120 villas when completed in 2018. The Pullman resort is interesting for its "one-island, one resort" concept and spans 195,000 sqm. This resort shall offer five star services and facilities aimed at upmarket consumers.

Increase Exposure

- Intrinsic Value S\$0.555
- Previous Close S\$0.440

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

Source: Voyage Research Estimates

Key ratios (FY15F)

PER	4.2
P/BV	1.0
ROE	26.8%
Debt/Equity	31.4%
Current ratio	1.5

Source: Voyage Research Estimates

Indexed Price Chart

Green (FSSTI)

Black (Keong Hong)



Source: Bloomberg

52wks High-Low 45.0cents/ 34.0cents

Number of Shares 232.95 m

Market Capitalization S\$102.5m

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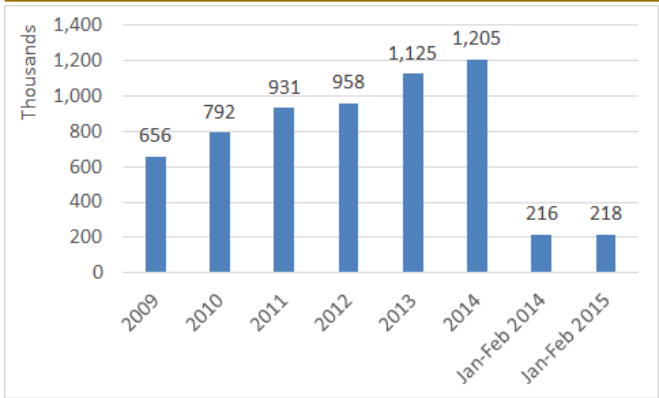
Expect Handsome Profits per Year: We estimate that both resorts will have the potential of generating net operating profit of US\$10.0m on revenue of US\$28.5m, based on operating margin of 35%, occupancy of 85% and room rates of US\$350 per night for Mercure Maldives Kooddoo and US\$600 per night for Pullman Maldives Maamutaa. Given Keong Hong’s 45% stake, we are looking additional pre-income of S\$6.0m per year from FY19 onwards. This translates to a reasonable return of 8.3% per annum on the development cost of US\$120m, without taking into account revenue and profits from the sale of food and beverages and the provision of other leisure services such as diving and watersports. All in, the stable state return of the resorts should be well above our estimate.

However, the effective contribution of Mercure Maldives Kooddoo in FY16 will be lower, at about S\$0.5m in FY16, to about S\$1.3m in FY17. This is because of the smaller size of Mercure Maldives Kooddoo (68 villas) and its lower priced mid-scale positioning, as well as to take into account time required for occupancy to reach stable levels.

Market Overview: Demand for resorts in the Maldives is relatively strong, with such forms of accommodation enjoying high occupancy rates of more than 80%. Visitors tend to prefer resorts over hotels and guesthouses, as the occupancy rates of such accommodation are about 40% and less than 20% respectively. Given the favorable location and unique attributes of the two resorts, occupancy may actually range towards 90%.

Room rates in the Maldives vary from less than US\$100 per night for a room to more than US\$900 per night for large villas. Based on the size of the Pullman Maamutaa and the fact that the resorts feature villas rather than hotel rooms, we assume that these villas will be relatively large in size and enjoy a higher than average rate per night.

Figure 1: Visitor Arrivals in the Maldives



Source: <http://tourism.gov.mv/>, Voyage Research

Figure 2: Occupancy Rates in Maldives



Source: <http://tourism.gov.mv/>, Voyage Research

Forecasts and Valuation: We refrain from including contribution from the resorts in our forecasts. Our current forecast horizon takes place over FY15 to FY17. During FY17, Mercure Kooddoo will still be in its first year of operations and as such, it will still be in its initial phase of contribution. Nonetheless, we factor the Maldives projects into our valuation at this juncture, by assuming a conservative 10% incremental net value out of the US\$120m investment, which is equivalent to about 3.1 S cents per share to Keong Hong. This brings our valuation of the company up to S\$0.555 per share.

Figure 3: Mercure Kooddoo Master Plan



Source: Company, Voyage Research

Figure 4: Pullman Maamutaa Master Plan



Source: Company, Voyage Research

Figure 5: 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	TOP
Twin Waterfalls	162.5	Jun-15	20%	Fully Sold
Alexandra Central	101.08	Mar-15	NA	Phase 1: TOP Dec 2014, Phase 2: TOP by end Mar 2015
J Gateway	161.9	Sep-16	NA	
SkyPark Residences	149.9	2016	20%	Launched, about 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 Dec	463			
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 6: 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%
Add. Est. Residual Value of Maldives Proj.	7.4	Cost of Debt	3.0%
Value of Equity	128.9	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

Source: Voyage Research

Figure 7: 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 8: 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	34.2	44.5	51.2	62.7
P/E	10.9	5.1	4.7	5.2	4.2	4.6	2.7
P/BV	3.5	2.0	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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