

Keong Hong Holdings Limited

Project Pipeline Reaffirms Growth in 2015

Keong Hong Holdings Limited (Keong Hong) commenced quarterly financing reported in FY2015. For 1Q FY15 ended December 2014, reported revenue, gross profit and net profit attributable to shareholders were largely within expectations and ranged from 23.1% to 33.0% of our forecasts. Keong Hong is expected to recognize gains from the development of the fully sold Twin Waterfalls executive condominium project in 2015. With 1Q results largely within expectations, 2015 looks set to be a strong year for Keong Hong.

Higher Revenue Recognition: Year-on-year, revenue grew by 18.8% in 1Q FY15 to S\$73.2m. Growth can be said to be due to the execution of ongoing projects, such as Alexandra Central, J Gateway and Skypark Residences. Among these projects, Phase 1 of Alexandra Central achieved TOP on 11 December 2014 and Phase 2 is expected to be completed by end March 2015. The entire project has a contract value of S\$101.1m.

Margins Stable Compared to Recent Quarters: Gross margin declined from 13.7% in 1Q FY14 to 10.3% in 1Q FY15, which explained for the 10.3% year-on-year decline in gross profit in spite of higher revenue. That said, the gross margin of 10.3% was actually comparable to 9.3% in 2Q FY14 and 10.7% in 2H FY14, suggesting that such gross margin levels are less likely to lead to year-on-year lower gross profits in subsequent quarters. We are unfazed by the decline in gross margin as we had prudently projected gross margin of 8% for FY15F on the back of stiff competition and higher costs.

Outlook: As a result of lower gross profit, PATMI also declined by 9.9% year-on-year to S\$5.7m in 1Q FY15. However, when compared to the average quarterly PATMI from 2Q FY14 to 4Q FY14 of S\$4.5m, 1Q FY15 PATMI was actually 26.9% higher. We remain optimistic about Keong Hong's financial results in FY15, which should be boosted by the completion of a development project. In the interim, we continue to monitor for new contract wins, which will help the company to renew its order book. The company ended FY2014 with an outstanding order book of S\$463m.

Increase Exposure

- Intrinsic Value S\$0.520
- Prev Close S\$0.370

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	3.5
P/BV	0.8
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	43.5 cents/ 34.0 cents
Number of Shares	232.95 m
Market Capitalization	S\$86.2m

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Twin Waterfalls to Reap Windfall Gain in 2015: We estimate that Twin Waterfall may potentially reap S\$18.5m in gains for Keong Hong. To be conservative, we have earlier booked S\$15.0m of gain from joint venture in our FY15 estimates. Since our last update, Keong Hong has launched The Amore in January 2015, which is currently about 25% sold. Skypark Residences is about 70% sold. We reiterate that the company still has time to gradually sell balance units before incurring additional charges. An additional project at Sembawang Avenue is pending launch.

Figure 1: Twin Waterfalls – Assumptions

Tenure	Fresh 99 year lease
Land Area (sqm)	25,164.20
Plot Ratio	3.0
GFA (sqm)	75,492.6
Net Saleable Floor Area (sqm)	71,718.4
ASP (S\$ per sq. ft.)	710
Sales Value (S\$m)	548.1
Land Cost (S\$m)	219.5
Construction Cost (S\$m)	162.4
Other Costs	54.8
Tax	18.9
Est. Profit	92.5
Keong Hong's share	18.5

Source: Voyage Research

Figure 2: 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

Potential Venture into Infrastructure Projects: In the results announcement, Keong Hong mentioned that it intends to look into undertaking high-value infrastructure projects in the form of possible joint ventures and/or suitable acquisition. MRT projects were highlighted as an example. We look forward to further developments on this front.

Progress at the Maldives: The company mentioned in its FY14 annual report that its Maldives projects are progressing smoothly. The expansion, development and operation of the Kooddoo domestic airport have progressed into the land reclamation phase and will be completed in FY2015. The 68-villa airport hotel was at the footings and structural framing stage and will also be completed in FY2015. The 120-villa resort is in the development and planning stage and will be completed in FY2017.

Forecasts and Valuation: We maintain our forecasts and valuation in this update. We observed that Keong Hong has been conservative when bidding for property development projects, whilst diversifying into new markets such as the Maldives and hospitality projects in Singapore and overseas. We concur with these moves and like how they will help Keong Hong to expand its revenue base without excessive risk taking.

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	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 Sep	463			
Maldives				
Status				
Kooddoo Domestic Airport	Work has commenced for completion in 2015/2017. Stages of completion as per above.			
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

	1Q FY15	2H FY14	2Q FY14	1Q FY14	1H FY14	FY15F	1Q % of Forecasts
Revenue	73.2	154.9	56.4	61.6	118	286.5	25.5%
Gross Profit	7.6	16.6	5.3	8.4	13.7	22.9	33.0%
EBIT	7.0	14	2.7	7.2	9.9	29.9	23.2%
PATMI	5.7	10.9	2.5	6.3	8.8	24.6	23.1%
Gross Margin	10.33%	10.70%	9.34%	13.69%	11.60%	7.99%	2.33%
EBIT Margin	9.50%	9.00%	4.74%	11.74%	8.40%	10.44%	-0.94%

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	See previous updates
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	9.2	4.3	4.0	4.4	3.5	3.8	2.3
P/BV	2.9	1.7	1.3	1.1	0.8	0.7	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.

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