

Keong Hong Holdings Limited

To Launch EC Project in 2H 2013

Keong Hong Holdings Limited (KH) reported 1H FY13 PATMI of S\$6.2m, up by 31.2% compared to 1H FY12. Going forward, the pace of construction for ongoing projects is expected to ramp up, leading to faster revenue recognition. We continue to like KH's forward visibility, represented by its net order book of S\$542m (as at 14 May 2013), to be fulfilled with the next three years. **Maintain Increase Exposure.**

Results Overview: The increase in profitability was partly due to cost savings from certain projects that had been substantially completed. Revenue fell by 44.5% year-on-year as work at ongoing projects had yet to be fully ramped up during 1H FY13. Gross margin rose from 8.7% a year ago to 16.2% in 1H FY13.

Project Progress: Of the five projects on hand, we opine that the Paterson 2, Terrasse and Twin Waterfalls are 20% to 30% completed. The Paterson 2 is targeted to be completed within 2013. The EC at Sembawang Crescent/Sembawang Drive will be launched in 2H 2013 – revenue will be recognized on completion. Work at the hotel site at Alexandra Central has only just started.

Strategy Unchanged: The company is still exploring certain project opportunities on hand, such as a resort in the Maldives. We see that KH intends to remain active in tendering for EC sites. However, the management clarified that they are also adopting a prudent stance in tenders to avoid excessive risk.

Our View: We are comforted by KH's order book, which still translates to average revenue of S\$180m/year over the next three years. We reckon that construction progress will accelerate over the next 12 months, following an even steeper than expected "S" curve. Work at the Sembawang EC will also commence following its launch in 2H 2013. Any underperformance against our forecast will also suggest higher revenue recognition in subsequent periods. As such, we maintain our forecasts, pending review after the release of 2H results.

Increase Exposure

- Intrinsic Value S\$0.715
- Prev Close S\$0.540

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 a property development in Singapore.

Financial Highlights

(Y/E Sep) S\$ m	FY11	FY12	FY13F
Revenue	189.5	167.4	200.8
Gross Profit	13.8	29.4	30.1
EBIT	12.2	23.9	23.8
PATMI	9.4	19.8	19.9
EPS (S cts)	5.9	12.4	12.8

Source: Company, SIAS Research

Key ratios (FY13F)

PER	4.2
P/BV	1.3
Return on Common Equity	34.9%
Return on Assets	14.7%
Gross Debt to Common Equity	0%

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (Keong Hong)



Source: Bloomberg

52wks High-Low S\$0.5643 / S\$0.2724
 Number of Shares 156.0m
 Market Capitalization S\$84.2m

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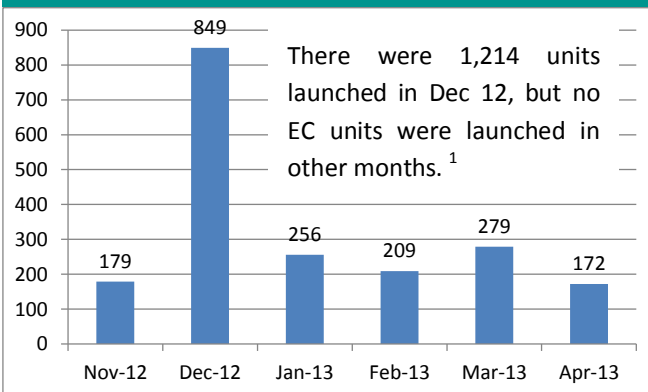
Lower Operating Expenses: The increase in profitability was also due to lower administrative expenses, which fell by 20.5% or S\$0.7m year-on-year. Higher professional fees of S\$0.6m were incurred in 1H 2012 due to the listing of the company in Dec 2011. 1H FY12 comprised of the period Oct 2011 to Mar 2012. Depreciation expense increased by S\$0.5m year-on-year, mainly due additional PPE and changes in the estimated useful lives of two categories of plant and equipment, from five years to three years.

Investments in Productivity and Manpower: During 1Q FY13, KH spent S\$4.4m in new equipment and machinery. One or two months ago, it added a project manager and a senior manager to its headcount. These efforts suggest that KH is gradually expanding its capacity and we gathered that it is still able to add on at least one more major project to its order book.

Recognition for Construction Excellence: We further heard that the company has just received a Construction Excellence Award (Merit) from BCA on 16 May 2013, for achieving an average score of 90.8 under the BCA Construction Quality Assessment System (CONQUAS) for the Martin Place Residences.

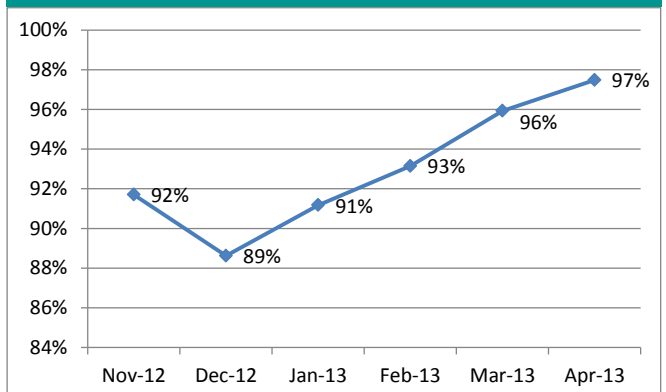
To Launch EC in 2H 2013: The number of EC units sold, based on URA caveats filed, fell from 279 in Mar 2013 to 172 in Apr 2013. However, there were no newly launched units, thus the sales led the number of unsold EC units to fall from 372 to 230 during the same period. As such, the lower sales were in part due to less available inventory. Given the circumstances, we are hopeful that the success of the Twin Waterfalls, which we believe to be fully sold, will be repeated.

Figure 1: No of EC Units Sold



Source: URA

Figure 2: EC Cumulative Take-Up Rate²



Source: URA

¹Based on URA data

²Cumulative take up rate is defined as one minus (cumulative units launched, but unsold / Cumulative units launched-to-date).

Figure 3: Results Overview

	1H FY13	2H FY12	1H FY12	YoY Growth
Revenue	52.8	72.2	95.2	-44.5%
Gross Profit	8.6	21.1	8.3	3.5%
EBIT	7.1	17.4	6.5	8.4%
PATMI	6.2	15.1	4.7	33.0%
Gross Margin	16.2%	29.2%	8.7%	
EBIT Margin	13.4%	24.1%	6.9%	

Source: Company, SIAS Research

Figure 4: Existing Projects

	Contract Value
Paterson 2	70.5
Terrasse	110.5
Twin Waterfalls	162.5
EC @ Sembawang	149.9
Alexandra Central	101.1
Total	594.5

Source: Company, SIAS Research

Figure 5: Valuation

S\$ m	FY13F	FY14F	FY15F
Revenue	200.8	220.9	232.0
EBIT	23.8	26.7	18.9
Tax on EBIT	-4.0	-4.5	-3.2
NOPLAT	19.7	22.1	15.7
Invested Capital	116.5	129.5	144.9
% of Debt	56.1%	49.8%	44.5%
% of Equity	43.9%	50.2%	55.5%
WACC (%)	8.0%	8.3%	8.5%
Capital Charge	9.4	10.7	12.3
Economic Profit	10.4	11.4	3.4
Terminal Value			53.9
Discount Factor	0.9	0.9	0.8
Present Value	9.6	9.8	2.7
Book Value	50.0	Risk Free Rate	2.5%
Explicit Value	22.1	Beta	1.0
Terminal Value	42.2	Market RP	7.7%
Value of Equity	114.4	Cost of Equity	10.2%
Number of Shares (m)	160.0	Cost of Debt	5.4%
Value per share (S\$)	0.715	LT Growth	2.0%

Source: SIAS Research

The company bought back 4m shares at S\$0.535 each on 8 February 2013. The current number of shares outstanding is 156m. We plan to update our valuation when we update our forecasts following the release of 2H results.

Figure 6: Financial Forecasts and Estimates

	FY10	FY11	FY12	FY13F	FY14F	FY15F
Revenue	124.8	189.5	167.4	200.8	220.9	232.0
Gross Profit	10.1	13.8	29.4	30.1	33.1	25.5
EBIT	9.7	12.2	23.9	23.8	26.7	37.4
PATMI	8.2	9.4	19.8	19.9	22.1	31.0
Total Current Assets	83.9	110.9	121.0	135.9	155.8	180.8
Total Non-Current Assets	10.8	5.0	4.9	6.0	6.8	7.5
Total Current Liabilities	76.0	83.6	74.3	76.9	82.2	86.1
Total Non-Current Liabilities	2.9	0.9	0.4	0.1	0.1	0.1
Total Equity	15.8	31.4	51.2	64.9	80.4	102.1
Cash from Operating Activities	16.8	10.4	20.5	17.1	22.0	35.6
Cash from Investing Activities	2.8	7.1	-2.5	-2.0	-2.0	-2.0
Cash from Financing Activities	-7.1	-2.9	8.5	-6.8	-6.6	-9.3
Receivable Days	118	120	145	120	120	120
Payable Days	137	124	134	90	90	90
Return on Common Equity	53.1%	41.6%	49.8%	34.9%	30.8%	34.3%
Return on Assets	10.9%	10.4%	15.8%	14.7%	14.5%	17.7%
Gross Debt / Common Equity	23.4%	5.6%	1.7%	0.0%	0.0%	0.0%
Current Ratio	1.1	1.3	1.6	1.8	1.9	2.1
EPS (S cents)	5.1	5.9	12.4	12.8	14.2	19.9
BV/Share (S cents)	9.7	18.4	31.3	41.0	50.9	64.8
P/E	10.6	9.2	4.4	4.2	3.8	2.7
P/BV	5.5	2.9	1.7	1.3	1.1	0.8

Source: Company, SIAS 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

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