

Keong Hong Holdings Limited

Strategic Alliance Taking Shape

Keong Hong Holdings Limited (Keong Hong) announced on 17 March 2015 the acquisition of 15.12% or 15m shares of Kori Holdings Limited (Kori). The aggregate cost works out to about S\$6.825m or about an estimated price of S\$0.455 per share. Suppose Keong Hong converts its existing S\$5m convertible bond (CB) into shares of Kori, the company will end up with 24.2% of the latter and become its second largest shareholder with the largest shareholder having an equivalent stake of 28.65%. As such, we can envisage a strategic alliance forming between both companies.

Complementary Capabilities: Keong Hong subscribed to the convertible bond on 19 August 2013. Back then, Keong Hong explained in its announcement that it aims to strike a strategic alliance with Kori, which has an established track record and strong technical expertise in civil and structural engineering and infrastructure construction services. On the other hand, Keong Hong is more established as a provider of building construction services and has in the past expressed interest in looking into undertaking high-value infrastructure projects, especially in the MRT segment, through possible joint ventures and/or suitable acquisitions.

Leveraging on Keong Hong's Financial Strength: Keong Hong ended 2014 with net cash of S\$14.1m and net assets of S\$85.7m. Conversely, Kori has cash, less bank loans and finance leases, of S\$1.2m and net assets of S\$44.2m. Therefore, we can infer that Keong Hong will be able to lend towards Kori its financial strength to support the latter in its future projects.

Investment at Reasonable Price: Based on Kori's net asset value per share of S\$0.446, Keong Hong's purchase price works out to about 1.02x book value. As for Keong Hong's convertible bond, the conversion price of S\$0.42 per share is about 5% lower than the adjusted net asset value per share of S\$0.443. Following the acquisition of 15m shares or 15.12% interest by Keong Hong, Kori's CEO and Managing Director Mr. Hooi Yu Koh will remain the largest shareholder with shareholdings of 32.08%.

Increase Exposure

- Intrinsic Value S\$0.520
- Prev Close S\$0.420

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	4.0
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)



Source: Bloomberg

52wks High-Low	43.5 cents/ 34.0 cents
Number of Shares	232.95 m
Market Capitalization	S\$97.8m

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Reiterate Positive Outlook: We also reiterate our positive view of Keong Hong, with the completion of the Twin Waterfall project expected potentially reap windfall gains of S\$18.5m for Keong Hong. Other major projects expected to reach completion in 2015 include the Kooddoo domestic airport and the 68-villa airport hotel in the Maldives. As such, we can look forward to further developments on these projects. For FY15, we expect Keong Hong to report net profit attributable to shareholders of S\$24.6m on revenue of S\$286.5m, versus PATMI of S\$19.7m and revenue of S\$272.9m in 2014. Kori's share price as of 8 April 2015 is S\$0.460, which is not too distant from Keong Hong's latest purchase price. As such, we maintain our valuation of Keong Hong at S\$0.520.

Figure 1: 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 2015/2017. Stages of completion as per above.			
Tourist Hotel				
Tourist Resort				
Kori Holdings Limited	Status			
<div><div>-</div><div>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.</div></div> <div><div>-</div><div>Acquired 15m Kori shares at cost of S\$6.825m via married deal on 17 March 2015.</div></div>				

Figure 2: 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 3: 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 4: 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	10.4	4.9	4.5	5.0	4.0	4.4	2.6
P/BV	3.3	1.9	1.5	1.2	0.9	0.8	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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