

MONEY TALK

KEONG HONG (KHHL SP)

Looking Forward To A Bumper 4QFY15 And FY16

VALUATION

- Maintain BUY with a higher SOTP target price of S\$0.665 as we raise our profit forecasts for FY15-17 by 3-20%.

RESULTS

- 3Q15 net profit increased 11.6% yoy to S\$6.3m.** Despite lower revenue, net profit increased on the back of an expansion in gross margin and higher interest income and project management fees. 9MFY15 net profit forms 84% of our full-year forecast.

OUR VIEW

- Expect an exceptional 4QFY15.** Keong Hong's 20%-owned Twin Waterfalls executive condominium, which was fully sold has obtained TOP. We expect Keong Hong to recognise property development profit of S\$17.5m (or S\$0.075/share) from this project in 4QFY15.
- Solid balance sheet with rising net cash.** As at 30 Jun 15, Keong Hong had net cash of about S\$1.4m. Following the TOP of Twin Waterfalls, we expect Keong Hong to receive the remaining cash proceeds from the sale of the project, which we estimate at S\$35m (or S\$0.15/share), further boosting its balance sheet. Keong Hong could receive cash proceeds of another S\$30m (or S\$0.13/share) after the TOP of Skypark Residences in FY16.
- Potential bumper dividends in the next two years?** With the bumper profits and huge cash proceeds from the TOP of Twin Waterfalls, we believe there is potential for a bumper dividend. Keong Hong paid out 18-27% of its earnings as dividends in the last three years. Assuming it pays out 25% of its earnings in FY15, this translates into a dividend yield of 8.7%. For FY16, investors can look to another year of sustained profit with the expected TOP of Skypark Residences (81% sold), which we expect Keong Hong to recognise an estimated property development profit of S\$14.9m (or S\$0.064/share).
- Replenished orderbook.** As at 30 Jun 15, Keong Hong had a construction orderbook of S\$423m. It has also secured a S\$107.5m contract in Aug 15 for the construction of a 20-storey medical building at Victoria Street, which is expected to be fully completed by Aug 17.
- Raise our net profit forecasts for FY15-17 by 3-20%.** We adjust our revenue (to factor in the timing for recognising revenue from construction contracts) and raise our gross profit margin assumptions for FY15-17 as Keong Hong has demonstrated their ability to sustain margins amid a competitive industry landscape. We have not included the recurrent income contribution from Keong Hong's hotel investments at the former Joo Chiat Police Station and Maldives which is expected to be completed from FY16 to FY17. As such there may be potential upside to our earnings forecast.

KEY FINANCIALS

Year to 30 Sep (S\$m)	2013	2014	2015F	2016F	2017F
Net turnover	146.6	272.9	277.7	305.1	251.7
EBITDA	27.3	26.8	29.9	34.5	31.6
Operating profit	24.9	24.5	25.0	27.2	21.3
Net profit (rep./act.)	21.9	19.7	37.2	35.0	21.1
EPS (cents)	9.4	8.4	15.9	15.0	9.0
PE (x)	4.9	5.5	2.9	3.1	5.1
P/B (x)	1.6	1.3	1.0	0.8	0.7
Dividend yield (%)	3.6	4.9	8.7	8.2	4.9
Net debt/(cash) to equity (%)	(21.0)	(20.4)	(16.2)	(19.3)	(9.2)
Interest cover (x)	401.6	76.6	16.0	7.9	6.7
ROE (%)	33.0	24.2	34.6	26.2	14.1

Source: Bloomberg, UOB Kay Hian

BUY

(Maintained)

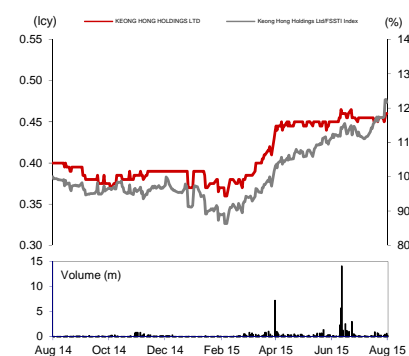
Share Price	S\$0.46
Target Price	S\$0.665
(Previously: S\$0.565)	
Upside	+44.6%

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):	226.0
Market cap (S\$m):	103.9
Market cap (US\$m):	74.0
3-mth avg t'over (US\$m):	0.3

PRICE CHART



Source: Bloomberg

ANALYST

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MONEY TALK

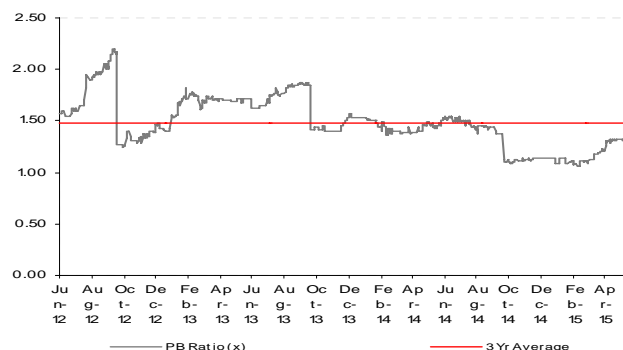
Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	9/13	9/14	9/15E	9/16E	
14/08/2015	100%	0%	0%	P/E	4.2	3.4	4.2	4.7	
Target Price				EV/EBIT	3.1	3.2	-	-	
Upside				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	287	301	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	25	23	Return on Assets	16.9	11.1	11.1	8.7
EPS Adjusted	0.09	0.11	0.11	0.10	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 @ 14 Aug 15	Market Cap (US\$m)	-----PE-----		-----P/B-----		Yield	
				FY15F (x)	FY16F (x)	FY15F (x)	FY16F (x)	FY16F (%)	
Lian Beng Group Ltd	LBG SP	0.535	193	3.3	2.6	0.7	0.6	3.7	
Sim Lian Group Ltd	SLG SP	0.865	620	5.1	n.a.	0.9	n.a.	n.a.	
Koh Brothers Group Ltd	KOH SP	0.29	86	4.3	n.a.	0.5	n.a.	n.a.	
Chip Eng Seng Corp Ltd	CHIP SP	0.685	303	1.6	n.a.	0.6	n.a.	n.a.	
Tiong Seng Holdings Ltd	TSNG SP	0.142	93	n.a.	20.3	0.5	n.a.	n.a.	
Average				3.5	11.4	0.6	0.6	3.7	
Keong Hong Holdings Ltd	KHHL SP	0.46	74	4.2	4.2	1.3	1.0	n.a.	

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 stock trades within S\$0.36-0.47 so far this year. If the stock is well supported at S\$0.435, it could test S\$0.52 in a breakout.

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