

## Keong Hong Holdings Limited

### Packed Pipeline Incites Excitement

Keong Hong Holdings Limited's (Keong Hong) full year FY13 PATMI of S\$21.6m beat our expectation of S\$19.9m soundly. Prospects remain bright as the company has completed only about 20% of its current cumulative contract value of S\$756.4m. Other potential catalysts include a) strong sales from Keong Hong's 20% owned SkyPark Residences over the next few months, b) a possible contract from Keong Hong's 15% owned Punggol Central / Edgedale Plains EC development in 1H 2014, c) potential collaboration with Kori Holdings Limited and d) further developments from the Maldives.

**Packed Pipeline:** Keong Hong's net order book of S\$611m as at 30 Sep 2013, comprising of six projects with a cumulative contract value of S\$756.4m, suggests that only 20% (100% less 611m over 756.4m) of these projects have been constructed. Four projects worth S\$444.6m are to be completed from now to 1H FY15. As such, revenue recognition is expected to continue to accelerate in FY14 to an estimated S\$227.3m (FY13: S\$146.6m). Already, 2H FY13 revenue of S\$93.8m compares very favourably to 1H FY13 revenue of S\$52.8m.

**SkyPark Residences Well-Received:** 1,604 online applications for 506 units within the first week of launch in Oct 2013. Based on estimated ASP of S\$770psf and GFA of 654,000 sqft., this project may potentially yield about S\$500m of sales and more than S\$20m of net profit to Keong Hong upon completion in 1H FY17. The company has yet to recognize the estimated S\$15m to S\$18m of gains from its stake in the fully sold Twin Waterfalls to be completed by end 2014 (or 1Q FY15).

**Bullish for Next Four Years:** Keong Hong looks set to benefit from faster project completion from now until end 2016, with additional property development profits in FY15 and FY17. Other upside potential that we have yet to factor in includes early stage projects such as Keong Hong's strategic alliance with Kori Holdings Limited, leases in the Maldives and the Punggol Central / Edgedale Plains EC development project. These multiple drivers place Keong Hong in a strong position to defend and grow its profitability, thus justifying our bullish view of the company.

## Increase Exposure

- Intrinsic Value S\$0.760
- Prev Closing S\$0.600

### 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	FY12	FY13	FY14F
Revenue	167.4	146.6	227.3
Gross Profit	29.3	30.4	34.1
EBIT	24.0	25.4	28.8
PATMI	20.0	21.6	23.8
EPS (S cts)	12.5	13.7	15.3

\*FY12 EPS based on 160m shares  
Source: Voyage Research Estimates

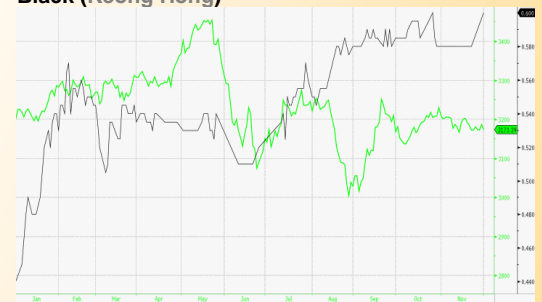
### Key ratios (FY14F)

PER	3.9
P/BV	1.1
ROE	31.3%
Debt/Equity	3.4%
Current ratio	1.6

Source: Voyage Research Estimates

### Indexed Price Chart

Green (FSSTI)  
Black (Keong Hong)



Source: Bloomberg

52wks High-Low 60.5 cents/ 41.84 cents  
Number of Shares 156 m  
Market Capitalization S\$93.6m

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**Results Overview:** 2H FY13 revenue grew by 30% over that of 2H FY12 and 78% over that of 1H FY13. Gross margin spiked up to 23.3% in 2H FY13, bringing full year gross margin to 20.7%. On the whole, the improvement in full year gross margin was driven by “cost savings at certain substantially completed projects”, S\$0.4m of reward from clients for two projects achieving the agreed upon BCA construction quality scores and variation orders from some projects. The improvement in gross profit accounted for the bulk of Keong Hong’s net profit growth in FY13, which grew by 8.1% year-on-year.

**Forecasts and Valuation:** As explained in Page 1, Keong Hong has four projects to be completed within the next 15 months. As such, revenue recognition should accelerate as progress at these projects continue to ramp up. We adjusted our forecasts and expect full year revenue of S\$227.3m for FY14, implying growth of 55% over FY13, before levelling out to a more sustainable 10% annual growth rate in FY15 and FY16.

However, gross margin is expected to fall to 15% in FY14 and 10% in FY15 and FY16. The gross margin for FY13 was in part driven by variation orders that may not recur. Moreover, some of Keong Hong’s cost savings may be eroded by higher labour costs. As a result of these adjustments, we expect PATMI for FY14F to be S\$23.8m versus our previous forecast of S\$22.3m.

We also did not factor in contribution from SkyPark Residences, as it is anticipated to TOP in FY17. We have kept our forecast horizon short, at three years or up to FY16 for now. Our revised valuation is currently S\$0.760 versus S\$0.715 previously.

**Figure 1: Results Overview**

S\$m	FY13	FY12	Forecasts	% Forecasts	FY14F
Revenue	146.6	167.4	200.8	73.0%	227.3
Gross Profit	30.4	29.3	30.1	101.1%	34.1
EBIT	25.4	24.0	23.8	106.6%	28.5
PATMI	21.6	20.0	19.9	108.8%	23.8
Gross Margin	20.7%	17.5%	15.0%		15.0%
EBIT Margin	17.3%	14.3%	11.9%		12.6%
	<b>2H FY13</b>	<b>1H FY13</b>	<b>2H FY12</b>	<b>1H FY12</b>	<b>YoY Growth</b>
Revenue	93.8	52.8	72.2	95.2	30.0%
Gross Profit	21.9	8.6	21.0	8.3	3.9%
EBIT	18.3	7.1	17.4	6.5	4.9%
PATMI	15.4	6.2	15.3	4.7	0.5%
Gross Margin	23.3%	16.2%	29.1%	8.7%	
EBIT Margin	19.5%	13.4%	24.2%	6.9%	

Source: Company, Voyage Research

**Figure 2: List of Projects and Investments**

	Contract Value	Est. TOP	Joint Developer?	Remarks
<b>Singapore</b>				
Paterson 2	70.5	Feb-14	NA	
The Terrasse	110.5	May-14	NA	
Twin Waterfalls	162.5	Dec-14	20%	Fully Sold
Alexandra Central	101.08	Mar-15	NA	
J Gateway	161.9	Sep-16	NA	
SkyPark Residences	149.9	Jan-17	20%	Launched, More than 3x subscribed
Punggol Central / Edgedale Plains	NA	NA	15%	Planning Stage, Construction contract yet to be awarded
Total	756.4			
Net Order Book as at 30 Sep	611			80% of total gross contract value
<b>Maldives</b>				
<b>Status</b>				
Kooddoo Domestic Airport	Leases acquired from government. Pending further announcements from company			
Tourist Hotel				
Tourist Resort				
<b>Kori Holdings Limited</b>				
<b>Status</b>				
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.				
Current Kori share price S\$0.490, translating to unrealized and unrecognized gain of S\$0.8m				

Source: Company, Voyage Research

**Figure 3: Economic Profit Valuation**

S\$ m	FY14F	FY15F	FY16F
Revenue	227.3	250.0	275.0
EBIT	28.8	34.1	21.3
Tax on EBIT	-4.9	-5.8	-3.6
NOPLAT	23.9	28.3	17.7
Invested Capital	134.1	156.2	176.0
% of Debt	51.5%	43.2%	38.4%
% of Equity	48.5%	56.8%	61.6%
WACC (%)	8.2%	8.5%	8.7%
Capital Charge	11.0	13.3	15.3
Economic Profit	12.9	15.0	2.4
Terminal Value			35.9
Discount Factor	0.9	0.8	0.8
Present Value	11.9	12.7	1.8
Book Value	64.2	Risk Free Rate	2.5%
Explicit Value	26.5	Beta	1.0
Terminal Value	27.9	Market RP	7.7%
Value of Equity	118.6	Cost of Equity	10.2%
Number of Shares (m)	156.0	Cost of Debt	5.4%
Value per share (S\$)	0.760	LT Growth	2.0%

\*Invested capital includes disclosed and est. debt held by associates or JV, but secured by Keong Hong.

Source: Voyage Research

**Figure 4: Financial Forecast and Estimate**

	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14F</b>	<b>FY15F</b>	<b>FY16F</b>
Revenue	189.5	167.4	146.6	227.3	250.0	275.0
Gross Profit	13.8	29.3	30.4	34.1	25.0	27.5
EBIT	12.2	24.0	25.4	28.8	34.1	21.3
PATMI	9.4	20.0	21.6	23.8	28.3	17.6
Total Current Assets	110.9	119.3	123.7	194.7	190.7	246.6
Total Non-Current Assets	5.0	6.7	14.3	14.8	10.2	9.8
Total Current Liabilities	83.6	74.2	71.9	120.6	92.2	135.4
Total Non-Current Liabilities	0.9	0.4	1.1	0.2	0.2	0.2
Total Equity	31.4	51.4	65.0	88.7	108.5	120.8
Cash from Operating Activities	10.4	25.3	4.2	33.7	27.4	20.1
Cash from Investing Activities	7.1	-4.3	-7.9	-2.0	-2.0	-4.2
Cash from Financing Activities	-2.9	4.1	-33.2	-8.7	-8.5	-5.3
Receivable Days	120	123	120	120	120	120
Payable Days	124	134	125	120	120	120
Return on Common Equity	41.6%	50.2%	37.8%	31.3%	28.9%	15.5%
Return on Assets	10.4%	16.0%	16.2%	13.7%	13.8%	7.7%
Gross Debt / Common Equity	5.6%	1.7%	7.0%	3.4%	2.8%	2.5%
Current Ratio	1.3	1.6	1.7	1.6	2.1	1.8
EPS (S cents)	5.9	12.5	13.7	15.3	18.1	11.3
BV/Share (S cents)	18.4	31.4	41.2	56.3	69.0	76.9
P/E	10.2	4.8	4.4	3.9	3.3	5.3
P/BV	3.3	1.9	1.5	1.1	0.9	0.8

\*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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