

## Keong Hong Holdings Limited

### New Project Adds Forward Visibility

Keong Hong Holdings Limited (KH) announced that it has been awarded a S\$101.08m contract to build a hotel at Jalan Bukit Merah/Alexandra Road by Chip Eng Seng Corporation Ltd. We view this development positively, as this project adds upside risk to our forecasts. Work will commence in March 2013 (impacting 2H FY13 ending Sep 2013). **Maintain Increase Exposure.**

#### Key Highlights:

**Steady Order Book Expansion:** This S\$101.08m 24-month project comes only two months after the company had secured S\$149.9m of work for an executive condominium at the Sembawang area. KH ended FY12 (Sep 2012) with an order book of S\$339m. To date, its order book amounts to S\$550m. Our analysis of KH's order book now suggests that the company's FY13 revenue may fall within the range of S\$200m to S\$230m, higher than our forecast of S\$200.8m.

**FY14 Revenue Accounted For:** This project also gives us further confidence that KH will meet our forecast for FY14. We had forecast revenue of S\$220.9m for FY14, which now can be fully attributed to existing projects. We understand that the company maintains several bids for projects at any point in time, as part of consistent order book renewal efforts. Further contract wins later this year will most likely add upside to FY14 revenue forecast.

**Waiting for 1H FY13 Results to Confirm Outlook:** In spite of these positives, we maintain our forecasts and valuation on KH. We are optimistic about its current pace of work done, and hence revenue recognized. However, we are also mindful that there are six more months until the company's financial year end, during which risks from project execution and costs, such as upward pressure on labour costs, may still manifest. As such, we would rather review our forecasts after the company has released its 1H FY13 results, which will give us even higher forward visibility.

## Increase Exposure

- Intrinsic Value S\$0.715
- Prev Close S\$0.525

#### 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	4.1
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\$84.7m

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**Figure 1: Order Book Analysis and Revenue Projection**

	Contract Value	Recognized in FY2012	Balance	FY2013	FY2014	FY2015
Paterson 2	70.5	21	160.0	138.7	21.3	0.0
Terrasse	110.5					
Twin Waterfalls	162.5	0	162.5	62.1	81.3	19.1
EC @ Sembawang	149.9	0	149.9	0.0	66.6	66.6
Hotel	101.1	0	101.1	25.3	50.5	25.3
Total	594.5	21	573.5	226.1	219.7	111.0
<b>Difference Between Projected Revenue Recognition &amp; Revenue Forecast</b>				-25.2	1.2	121.0
<b>Forecast Revenue</b>				200.8	220.9	232.0
<b>Implied Year-on-Year Growth</b>				20.0%	10.0%	5.0%

In formulating our yearly revenue forecasts, we input a projected growth rate and reconciled the output revenue against expected construction progress to arrive at the expected contribution from new projects as a check for reasonableness. Expected construction progress is formulated on a "straight-line" basis with slight adjustments to take into account faster progress midway through a project.

Source: SIAS Research

**Figure 2: Valuation (as at 31 Jan 2013)**

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.

**Figure 3: 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	10.3	8.9	4.2	4.1	3.7	2.6
P/BV	5.6	3.0	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.

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