

31 December 2013

Ho Hup Construction

I'm Back!

INVESTMENT MERIT

- Coming Back.** HOHUP is poised to make a comeback after an extended break from the property & construction scene following a lengthy corporate turnaround exercise. The financial regularisation exercise is near completion to uplift HOHUP from PN17 status, which will enable the company to reap benefits from the development of its crown jewel, the 60-acre prime land in Bukit Jalil. We expect a strong turnaround for HOHUP, with forecasted net earnings of RM17.1m, RM106.3m and RM146.8m for FY13E, FY14F and FY15F, respectively, from multi-year losses since 2006.
- Regularization exercise.** HOHUP has undergone a series of regularisation plans, which involves capital reduction, rights issue of loan stocks with free detachable warrants and a scheme to repay its creditors. (Please refer to Appendix for details). Post-exercise, the company will have a clean balance sheet and a potential inflow of fresh capital from the exercise of rights issue of loan stock (≈RM51m) and warrants (≈RM30.6m).
- Upliftment from PN17 status.** To recap, HOHUP was categorised as a PN17 company in July 2008 after making consecutive losses during a period when the group's top line shrunk from RM350m in FY2000 to less than RM100m in FY2008. Although the group managed to register gross profit during those times, it was chalking up huge operating losses due to: (i) provision for doubtful debts, (ii) LAD charges, and (iii) exceptional charges resulting from unsuccessful oversea ventures. Post-restructuring, HOHUP would be lifted from PN17 status after posting net profits for 2 consecutive quarters subsequent to the regularisation plan. It is noteworthy that HOHUP had already been registering 4 consecutive quarters of profits.
- The Crown Jewel – 60 acres prime land in Buklit Jalil.** The 60-acre commercial freehold land, which comprises 10-acre BJDSB Land and 50-acre JD Land, is the main driver for HOHUP's future earnings. HOHUP will have the sole development right to the BJDSB Land, while a joint development agreement was signed between Malton Bhd and HOHUP for the JD Land. Under the joint development agreement, HOHUP will be entitled to 18% of the gross development value ("GDV") of RM2.1b or a minimum of RM220m from Malton, as well as a cash advance of RM80m. Currently, a revised master plan for the JD Land has been submitted, pending approval, where the revised GDV is estimated at more than RM4.0b from RM2.1b currently. The project is believed to contribute in the next 7-10 years. (Please refer to Appendix for the current and proposed land development).
- Greater earnings visibility for now.** Going forward, we see clarity in HOHUP's earnings visibility as the group is on a clean slate to expand and focus on its property development businesses. A healthy balance sheet post the restructuring exercise (which will enable the company to undertake more landbanking activities) coupled with visible earnings stream from the 60-acre development place HOHUP in a favourable position to build a portfolio of development projects for future growth. In addition, as the company is rationalising its construction (to contribute ≈7%-20% of FY13-FY14 gross profit) and concrete manufacturing (≈1%-3%) division operations, profitability of HOHUP is expected to strengthen further.
- Valuations & recommendation.** The RNAV of HOHUP could be ranging from RM1.55 to RM2.55, or **RM2.05 on average**, as asking prices for land within that area are ranging from RM250psf to RM400psf. Based on our small cap property stocks' Average Discount to RNAV of 25%, the stock should be valued at ≈RM1.55, representing a targeted FY14 PER of 5.7x, which is not demanding in contrast to peers' PER average of 7.1x. **Trading Buy.**

	Rating	Fair Value
Last Price		RM1.24
Kenanga Consensus	Trading Buy	RM1.55
	N.A.	N.A.

Stock Information

Stock Name	HO HUP CONSTRUCTION CO BHD
CAT Code	5169
Industry	Engineering & Construction
Industry Sub-sector	Building & Construct
YTD stock price chg	78.42%
Market Cap (RM m)	252.96
Issued shares (m)	204.00
52-week range (Hi)	1.94
52-week range (Low)	0.585
3-mth avg daily vol:	906032.3
Free Float	68%
Beta	0.41
Altman's Z-score	-2.07

Major Shareholders

LOW CHEE & SONS S/B	22.99%
FORMIS RESOURCES BHD	22.66%
INSAS BHD	10.79%

Financials

FYE Dec (RM'm)	2012A	2013E	2014E
Revenue	40.0	237.9	665.5
EBIT	-9.5	19.6	126.6
Net Profit (NP)	-12.1	17.1	106.3
EPS (sen)	-1.2	4.4	27.1
BV/Share (RM)	0.25*	0.29	0.56
PER	N.A.	28.4	4.6
Price/BV (x)	5.0	4.3	2.2
Net Gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0

* Proforma after restructuring exercise

Quarterly Financial Data

	1Q13	2Q13	3Q13
Revenue	23.3	16.7	61.6
Revenue Growth (QoQ)	77.4%	-28.5%	269.8%
EBIT	1.1	6.4	4.5
EBIT Margin	4.6%	38.3%	7.2%
Net Profit (NP)	0.4	6.5	2.8
EPS (sen)	0.4	6.3	2.7
EPS Growth (QoQ)	103.8%	1620.0%	-57.0%

Peers Comparisons

	FY14 PER (x)	FY14 Div. Yld (%)	Mkt Cap (RM'm)
CRENDO	9.1	4.6	724.0
CREST BUILDER	7.3	5.0	249.2
HUAYANG	5.7	5.7	506.9
MATRIX	6.7	7.0	1,096.3
TAMBUN	6.5	5.6	591.3
AVERAGE	7.1	5.6	-
HOHUP	4.6	0.0	253.0
FBMKLCI	17.5	5.5	1.67T

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Daily Charting – Ho Hup Construction Company Bhd



Comment: Post right issues, HOHUP share prices were stuck in the RM 1.00-RM1.38 trend channel. As the stock is now trading near the channel support level of RM1.20, we recommend traders to accumulate the stocks now, ready for a rebound play. In-fact, an “Inverted Hammer” candlestick has now taken shape on the daily chart, indicating a bullish reversal pattern ahead. Judging from all the bullish signs, we expect HOHUP to gradually make its way towards RM1.38(R1) and RM 1.50(R2) – its channel resistance level.

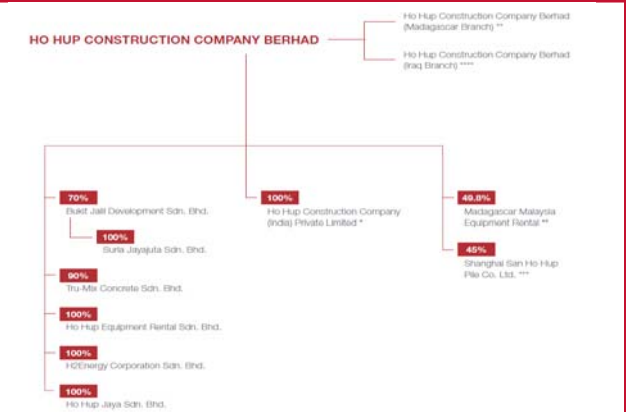
About the stock:
Name : Ho Hup Construction Company Bhd
Bursa Code : HOHUP
CAT Code : 5169

Key Support & Resistance level

Resistance	: RM1.38 (R1)	RM1.50 (R2)	RM1.60 (R3)
Support	: RM1.20 (S1)	RM1.11 (S2)	RM1.00 (S3)
Outlook	: Bullish		

Source: Kenanga Research

CORPORATE STRUCTURE BUSINESS OVERVIEW



Source: Company

BUSINESS OVERVIEW

- Ho Hup Construction Company Berhad (Ho Hup) is a Malaysia-based company engaged in foundation engineering, civil engineering, building contracting works and hire of plant and machinery.
- Locally, Ho Hup is known for its involvement in major national projects namely the Petronas Twin Towers, Bukit Jalil Stadium & National Sports Complex, KLIA, Light Rail Transit System (LRT), Malaysia –Singapore causeway and major highways.

BUSINESS SEGMENTS

- Ho Hup operates in three segments: (i) construction, which is engaged in foundation and civil engineering, building contracting works and engineering, procurement, construction and commissioning of pipeline system; (ii) property development, which is engaged in the development of residential and commercial properties, and (iii) manufacturing, which is engaged in the manufacturing and distribution of ready-mixed concrete. Other businesses are the hire of plant and machinery.

APPENDIX

Regularisation Exercise

	No. of Ordinary Shares '000	Par Value (RM)	RM'000
Existing ordinary issued and paid up share capital	102,000	1.00	102,000
After proposed Par Value Reduction	102,000	0.50	51,000
To be issued assuming full conversion of ICPS pursuant to the Proposed Right Issue of ICPS with warrants	102,000	0.50	51,000
	204,000	0.50	102,000
To be issued assuming full conversion of ICPS pursuant to the Proposed Right Issue of ICPS with warrants	136,634	0.50	68,317
	340,634	0.50	170,317
To be issued assuming full conversion of ICPS pursuant to the Proposed Right Issue of ICPS with warrants	51,000	0.50	25,500
Enlarged issued and paid-up share capital	391,634	0.50	195,817

Source: Company, Kenanga Research

Salient terms of the Rights ICPS

Terms	Details
Issue Size in Unit	102,000,408
Listing Date	30 December 2013
Par Value	RM0.01 per ICPS
Issue Price	RM0.50 per ICPS
Tenure	Three (3) years
Dividends	Cumulative preference dividend rate per annum of 2.5 sen per ICPS
Conversion Ratio	1 : 1, without payment of additional consideration

Source: Company, Kenanga Research

Salient terms of the Rights RCPS

Terms	Details
Issue Size in Unit	136,634,138
Listing Date	30 December 2013
Par Value	RM0.01 per ICPS
Issue Price	RM0.50 per ICPS
Tenure	Three (3) years
Dividends	Cumulative preference dividend rate per annum of 1.5 sen per RCPS
Conversion Ratio	1 : 1, without payment of additional consideration

Source: Company, Kenanga Research

Salient terms of the Warrants

Terms	Details
Issue Size in Unit	51,000,204 warrants to be issued on the basis of One (1) Warrant for every two (2) Rights ICPS pursuant to the Rights Issue with Warrants.
Listing Date	30 December 2013
Tenure	Five (5) years
Conversion Ratio	1 : 1
Conversion Price	RM0.60 per Warrant

Source: Company, Kenanga Research

Proforma Equity and Liabilities Post Corporate Exercises

	Notes	Audited Consolidated Statement of Financial Position as at 31-Dec-12 RM'000	Proforma I After the Proposed Par Value Reduction RM'000	Proforma II After Proforma I & Proposed Rights Issue of ICPS with Warrants RM'000	Proforma III After Proforma II & Proposed Scheme of Arrangement with Creditors RM'000	Proforma IV After Proforma III & Utilisation of Proceeds RM'000	Proforma V After Proforma IV & Assume Full Conversion of ICPS RM'000	Proforma VI After Proforma V & Assume Full Conversion of RCPS RM'000	Proforma VII After Proforma VI & Assume full exercise of Warrants RM'000
EQUITY									
Share capital	5	102,000	51,000	51,000	51,000	51,000	102,000	170,317	195,817
Share premium	6	-	-	49,980	116,931	116,931	66,951	-	5,100
Warrant reserve	7	-	-	8,670	8,670	8,670	8,670	8,670	-
ICPS	8	-	-	1,020	1,020	1,020	-	-	-
RCPS	9	-	-	-	1,366	1,366	1,366	-	-
Foreign exchange reserve		4,907	4,907	4,907	4,907	4,907	4,907	4,907	4,907
Accumulated losses	10	(158,716)	(107,716)	(116,386)	(116,386)	(117,323)	(117,323)	(117,323)	(108,653)
Non controlling interest		(51,809)	(51,809)	(809)	67,508	66,571	66,571	66,571	97,171
		992	992	992	992	992	992	992	992
		(50,817)	(50,817)	183	68,500	67,563	67,563	67,563	98,163
CURRENT LIABILITIES									
Provision for liquidated ascertain damages		19,439	19,439	19,439	19,439	19,439	19,439	19,439	19,439
Trade payables	11	49,972	49,972	49,972	23,432	23,432	23,432	23,432	23,432
Other payables	12	151,292	151,292	151,292	135,600	135,600	135,600	135,600	135,600
Bank borrowings	13	10,710	10,710	10,710	2,249	2,249	2,249	2,249	2,249
Tax payable		386	386	386	386	386	386	386	386
Total Equities and Liabilities		231,799	231,799	231,799	181,106	181,106	181,106	181,106	181,106
Par value per ordinary share (RM)		1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Number of ordinary shares		102,000	102,000	102,000	102,000	102,000	204,000	340,634	391,634
Net Assets/ (Net Liabilities)/ Share		(0.51)	(0.51)	(0.01)	0.66	0.65	0.33	0.20	0.25
Borrowings (All interest bearing debts) (RM)		10,710	10,710	10,710	2,249	2,249	2,249	2,249	2,249
Gearing (Times)		(0.21)	(0.21)	(13.24)	0.03	0.03	0.03	0.03	0.02

Source: Company

Current & Proposed Land Development

Development	GDV	Status
Parcel A - 5.9 acres (BJDSB Land) 3, 4 & 5 storey shop offices (64 units) with a SOVO and business park	RM392m	Shop office soft launched in Sept 2012 with 100% sold. SVO launched in Sept 2013 with 61% sold as at 9 Dec 2013. Development over 3 years. Piling in progress.
Parcel E - 4.1 acres (BJDSB Land) 3 blocks high rise residential condominiums	RM660m	Target launched in 2nd Quarter 2014. Development over 3 years.
Parcel B, C, D, F & G - 50 acres (JD Land) Joint development with Pioneer Haven (wholly owned subsidiary of Malton Bhd)	RM2.1b, revised GDV estimated at more than RM4.0b.	Estimated development over 10 years. Target launch 1st quarter 2014.

Source: Company, Kenanga Research

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