Ho Hup Construction (HO MK)

Buy

Construction & Engineering - Construction

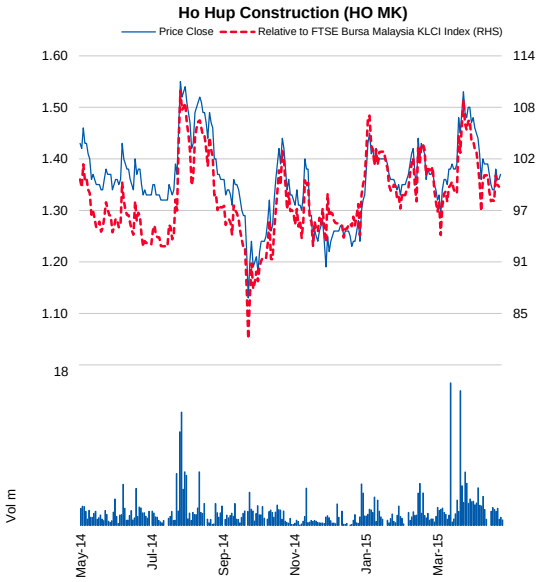
Target Price: MYR2.57

Market Cap: USD132m

Price: MYR1.37

Rebuilding For Growth And Expansion

Macro ◆◆
Risks ◆◆
Growth ◆◆
Value ◆◆



Source: Bloomberg

Avg Turnover (MYR/USD)	3.16m/0.87m
Cons. Upside (%)	20.4
Upside (%)	87.6
52-wk Price low/high (MYR)	1.13 - 1.55
Free float (%)	16
Share outstanding (m)	344
Shareholders (%)	
Low Chee & Sons SB	19.3
Omesti Holdings Bhd	16.8
Insas Plaza SB	13.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.7	(8.1)	2.2	3.0	(4.2)
Relative	6.3	(6.1)	2.1	3.6	(0.1)

Shariah compliant

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We initiate coverage on Ho Hup with a BUY recommendation and SOP-based MYR2.57 TP (88% upside, fully-diluted TP: MYR1.90). The company was given a new lease of life after going through years of trial and tribulations, and we expect a decent CAGR earnings growth of 17% in FY14-17F. This is premised on strong unbilled sales and higher contribution from its JV project with Malton.

- **A survivor.** After seven consecutive years of losses and hardship to complete a regularisation plan that subsequently lifted the company from Practice Note 17/2005 (PN17) status, Ho Hup Construction (Ho Hup) returned to the black in FY13. The company staged a better performance in FY14 where it reported a net profit of MYR67.5m (+200% YoY) on the back of a 128% YoY surge in turnover to MYR341m.
- **Earnings visibility.** Ho Hup currently has four construction projects in hand with a total unbilled portion of MYR301.5m. In addition, the company's property development segment has unbilled sales of MYR275.4m as at end-February. The combined unbilled amount of MYR576.9m from both divisions will keep it busy for the next two years.
- **Joint venture (JV) with Malton (MALT MK, NR) to boost earnings.** Ho Hup has tied up with Malton for the "Pavilion 2" integrated development with an expected GDV of MYR4bn-4.5bn. Malton has launched Phase 1 of the project, comprising fully-sold retail shop offices with an estimated GDV of MYR345m. Going forward, it plans to roll out Phase 2, which includes retail shops and serviced apartments. Ho Hup owns an 18% stake in this JV, which is a 5-year project estimated to generate positive cash flow for the company.
- **Key risks.** These include: i) softer take-up rates in property development projects, and ii) a failure to replenish its orderbook.
- **Initiate coverage with BUY and MYR2.57 TP.** We expect decent earnings CAGR of 17% for FY14-17F, premised on strong unbilled sales and higher contribution from its JV project with Malton. We initiate coverage on Ho Hup with a BUY and MYR2.57 TP based on SOP valuations. At our TP, we have valued the stock at 8.9x FY16F P/E.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	149	341	384	543	591
Reported net profit (MYRm)	23	67	70	100	108
Recurring net profit (MYRm)	23	67	70	100	108
Recurring net profit growth (%)	na	199.8	4.3	41.7	8.9
Recurring EPS (MYR)	0.22	0.22	0.23	0.29	0.31
Recurring P/E (x)	6.21	6.32	6.06	4.73	4.35
P/B (x)	1.68	3.43	2.19	1.45	1.06
P/CF (x)	10.4	na	4.9	4.3	4.2
EV/EBITDA (x)	3.78	5.52	3.88	2.17	1.18
Return on average equity (%)	143.3	65.0	44.1	40.8	31.1
Net debt to equity (%)	net cash	20.8	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

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Investment Thesis

The worst is over. We believe that the worst is over for Ho Hup. The company has gone through multiple years of losses, which have bitten into its coffers, following an unsuccessful investment in Madagascar. Subsequently, Ho Hup underwent financial and operational distress, which eventually resulted in the company falling into PN17 status. PN17 is issued by Bursa Malaysia on listed companies that are facing financial distress and/or have failed to comply with the stock exchange's requirements. Subsequently, Ho Hup experienced a boardroom tussle and corporate restructuring in FY09-14 before it exited from PN17. Please refer to "Company Background" for further details.

Doubt still lingers. We believe the investment community still harbours a negative perception on Ho Hup's earnings capability. This is mainly due to worries on encumbrances from legacy issues and scepticism over the new management's abilities to lead the company. We are of view that the current management has ensured that the company has cleared its debts and made all necessary provisions to maintain a healthy balance sheet.

The previous management is no longer involved in Ho Hup's business operations and company decisions. The current management has been led by CEO Mr Derek Wong Kit-Leong since 2010. During his tenure, the company managed to turn around in FY13 with net profit of MYR22.5m and Ho Hup exited from its PN17 status in May 2014 – a month ahead of schedule. Currently, the company is adopting an asset-light model in its day-to-day operations, with minimal obligation to purchase machinery and equipment.

Earnings visibility. Currently, the company has four construction projects in hand with a total unbilled portion of MYR301.5m. In addition, Ho Hup's property development project in Bukit Jalil (on 7.2 acres of land) comprises shop offices, smart office versatile office (SOVO), two office towers and retail floors, and has an estimated GDV of MYR1.1bn. The shop offices, retail floors and SOVOs are fully sold with unbilled sales of MYR275.4m as at end-February. The company's current jobs in hand – together with its combined unbilled amount of MYR576.9m from both its construction and property divisions – translate into earnings visibility for the next two years.

JV with Malton to further boost earnings. Ho Hup's wholly-owned subsidiary, Bukit Jalil Development SB (BJD) has tied up with Malton for the "Pavilion 2" integrated development on 50 acres of land in Bukit Jalil, Kuala Lumpur, with an expected GDV of MYR4bn-4.5bn. Phase 1 of the project, which comprises retail shop offices with an estimated GDV of MYR345m, has been fully sold. Going forward, Malton plans to roll out Phase 2, which includes retail shops and two serviced apartments. The JV is a 5-year project and is estimated to generate positive cash flow for the company. Ho Hup owns 18% under this venture. Based on the expected GDV of MYR4bn-4.5bn, the company should be able to generate MYR720m–810m in revenue from this venture.

Valuation

BUY with a MYR2.57 TP. With its transformation completed in 2014 after it exited PN17, Ho Hup is now able to focus on growing its core businesses, namely property development and construction. The company's recent set of good FY14 results indicate that Ho Hup on the right track for earnings growth.

After facing many hurdles in the past, we understand management is taking a more careful stance while growing the company proactively. We expect decent earnings CAGR of 17% for FY14-17F, premised on strong unbilled sales and higher contribution from its JV with Malton. Overall, we believe that the investment community has overlooked Ho Hup's turnaround in FY14. In addition, the new management has displayed determination and commitment in reviving and growing the company's core businesses. We initiate coverage on Ho Hup with a SOP-based TP of MYR2.57 (fully-diluted TP: MYR1.90, post-private placement in Jan 2015).

Our valuation also implies a FY16F P/E of 8.9x, higher than its 2-year average historical P/E of 6.0x. However, we believe that our valuation is justified based on (i) stronger earnings growth driven by greater contribution from JV project with Malton and higher earnings recognition from its construction arm, (ii) a turnaround story, whereby we believe that Ho Hup deserves a re-rating as it has turnaround in FY13 with a net profit of MYR22.5m and exited from PN 17 status in FY14, (iii) the company is no longer plagued by legacy issues and we think that the new management is displaying its capability and commitment to lead the company for better future growth.

Figure 1: Ho Hup's RNAV valuation

	(MYRm)
Total projects net present value (NPV)	271.6
Land held for development (market value)	111.1
Property development costs	29.0
Other net current assets	120.3
Unbilled sales	275.4
Less long-term debt	(31.9)
Total RNAV	**775.5**
No. of shares (m)	311.3
No. of shares - fully diluted (m)	419.7
RNAV per share	**2.50**
Fully diluted RNAV per share	**1.85**
Premium/(discount)	(20%)
Fair value - property development segment	**2.00**

Source: Company data, RHB

Figure 2: Ho Hup's SOP valuation

	Net profit/ RNAV (MYRm)	Valuation method	P/E or discount to RNAV	Value (MYRm)
Construction	19.8	P/E	9.0	178.2
Property development	775.5	RNAV	20%	620.4
				798.6
No. of shares (m)				311.3
Valuation per share (MYR)				2.57
Current price (MYR)				1.43
Percentage of upside (%)				80%
No. of shares - fully diluted (m)				419.7
Fully diluted per share (MYR)				1.90

Source: Company data, RHB

Peer comparison. We have selected a few construction peers that are also involved in property development activities to compare with Ho Hup. In terms of P/E, the company has the lowest valuation with FY15F P/E of 6.0x (Fully diluted FY15F P/E of 8.1x). In P/BV terms, Ho Hup is the highest due to its asset-light business model. It also posted a superior ROE of 65.0% in FY14. Nevertheless, we believe that the ROE will normalise over time when its equity base grows along with improvements in earnings.

Figure 3: Peer comparison

Company	Last price (MYR)	Market cap (MYRm)	FY14 debt to equity (%)	FY14 Net margin (%)	FY14 ROE (%)	P/E (x)		P/BV (x)	
						FY14	FY15F	FY14	FY15F
Ho Hup	1.37	471.9	28.9%	19.8%	65.0%	6.3	6.1	3.43	2.19
Gabungan AQRS	1.34	476.4	23.1%	12.1%	15.9%	10.7	11.2	1.61	1.60
Hock Seng Lee	1.83	1017.8	0.0%	12.7%	13.6%	12.4	13.9	1.71	1.77
Kimlun	1.31	393.7	44.3%	3.7%	12.9%	7.4	8.2	0.98	1.04
Protasco	1.92	672.0	50.5%	-4.6%	-13.3%	-12.5	9.9	1.93	2.11
TRC Synergy	0.42	200.1	44.8%	2.2%	6.7%	8.3	6.2	0.54	0.56
WCT	1.79	1950.0	106.6%	7.3%	5.4%	15.1	16.3	0.87	0.99
Average peers			42.6%	7.6%	15.2%	6.8	10.2	1.6	1.5

Source: Bloomberg, RHB, price data as at 14 May 2015

Key Risks

Softer take-up rates in property development projects. We are of view that the current weak sentiment in the property market will pose a threat to Ho Hup's future launches and those from its JV with Malton. Nevertheless, the company has unbilled sales of MYR275.4m as at end-February, which should keep it busy for the next two years. Besides, Ho Hup's developments and JV project with Malton are located in the prime Bukit Jalil area, with a mall (Pavilion 2) as part of the master plan. Hence, we believe that these factors should still be able to attract buyers, given that it would feature the largest shopping mall within the Bukit Jalil vicinity.

Failure to replenish orderbook. The other major risk is a failure to replenish its orderbook. Ho Hup's construction arm has a total orderbook of MYR301.5m as at end-February, which will last it two years. In addition, the company is bidding for jobs of over MYR600m and management is hopeful that it will be able secure some jobs from this for its construction arm. Among the projects that Ho Hup is bidding for includes some structure and infrastructure jobs at the Refinery and Petrochemical Integrated Development (RAPID) project in Johor, and some government works in West Malaysia and Sarawak.

Corporate Background

Brief history. Ho Hup was founded by Mr Low Chee in 1960. It is a construction company with capabilities in building, civil engineering, dredging, road building and infrastructure projects. The company was known for its involvement in projects such as the Petronas Twin Towers, the National Sports Complex, Kuala Lumpur International Airport (KLIA), Light Rail Transit System (LRT), and the Malaysia-Singapore Second Link and other major highways.

UEM World (previously known as Renong) acquired a 32.5% stake in the company in 1989. Ho Hup was subsequently listed on the Main Board of Bursa Malaysia in Feb 1991. In 2002, UEM World divested some of its assets, including Ho Hup, in order to pare its debts.

Things began to fall apart. The company's fundamentals deteriorated following an unsuccessful project in Madagascar in the mid-2000s as the African nation was undergoing a civil war during that period. In Jun 2009, Ho Hup and the Madagascar Government mutually agreed to settle their legal case, whereby the former would settle all the creditors' debts in Madagascar and the latter agreed to release all machinery to Ho Hup that had been seized since 2006 (see Figure 4 for further details).

Figure 4: Chronological order of the Madagascar incident

Date	Details
2004	The Madagascar Government awarded Ho Hup a highway construction contract worth USD60m, which was largely funded by the World Bank. Subsequently, Ho Hup borrowed money to buy equipment and machinery for this project.
Feb 2006	The project was halted due to a civil war in the country and the change of government in the African nation. The World Bank also terminated its loan. The new Madagascar Government also terminated the contract. Ho Hup initiated legal proceedings to prevent CIMB from releasing the performance bond to the Madagascar Government, which then seized machinery worth of USD40m. Ho Hup took the Government of Madagascar to the International Court of Arbitration.
Jun 2009	Ho Hup and the Madagascar Government agreed to settle the arbitration. Pursuant to the settlement agreement, Madagascar paid USD4m to Ho Hup while Ho Hup withdrew its case and paid all its creditors in Madagascar. With that, the Madagascar Government released the machinery to Ho Hup.
Aug 2009	After Ho Hup retook possession of the machinery from the Madagascar Government, the former's Madagascar unit entered into an equipment rental agreement with Madagascar Malaysia Equipment Rental SA (MMER) on 1 Aug 2009 to rent all the machinery to third parties in the island. MMER is an associate company of Ho Hup. The rental agreement was signed by its previous management. Unfortunately, in the interim years, the machinery had been dispersed all over the island nation. Some were missing important parts while others had gone missing entirely. Thus, the company no longer had any control over the management of the equipment. Hence, the machinery have been written off in Ho Hup's books.

Source: Company, RHB

Not smooth sailing. After this unfortunate occurrence, Ho Hup faced various financial and operational challenges. The company was plagued with delays in property development projects and payments, and was subsequently classified as an affected listed issuer under the PN17 status of Bursa Malaysia's Main Market Listing Requirements on 31 Jul 2008. It submitted a PN17 regularisation plan for 2010-2012 that included capital restructuring, cutting off unprofitable businesses, land disposals to fund its operation, and partially paring down its borrowings. Lastly – but most importantly – it submitted a proposed development plan for the 60 acres in Bukit Jalil to revive its business prospects.

The regularisation plan. Ho Hup submitted a PN17 regularisation plan in 2010 and a revised version in 2012. The proposed plan included a proposed capital reduction of issued and paid-up share capital of MYR102m (comprising 102m shares of MYR1.00 each) to MYR51m (102m shares of MYR0.50 each) to reduce accumulated losses. The plan also called for a renounceable rights issue of 102m irredeemable convertible preference shares (ICPS) together with 51m free detachable warrants at an issue price of MYR0.50 per ICPS. This is on the basis of one ICPS to one existing Ho Hup share with one warrant for every two ICPS subscribed after the proposed par value reduction. There was also a proposed scheme of arrangement with the creditors of Ho Hup and one of its subsidiaries (pursuant to Section 176 of the Companies Act 1965) in respect of the amount owing to the company's unsecured creditors and one of its subsidiaries totalling MYR257.7m as at 31 Oct 2010.

Ho Hup also proposed amendments to its Memorandum and Articles of Association to: i) facilitate the reduction in the par value of its shares to MYR0.50 from MYR1.00, ii) the issuance of ICPS pursuant to the proposed rights issue of ICPS with warrants, and iii) the issuance of redeemable convertible preference shares (RCPS) pursuant to the proposed scheme of arrangement of its creditors. The company also proposed an increase in its authorised share capital to MYR500m, comprising 990m Ho Hup shares, 200m ICPS of MYR0.01 par value each and 300m RCPS of MYR0.01 par

value each from MYR200m. This comprised 200m shares of MYR1.00 to accommodate the creation of the ICPS and RCPS.

The regularisation exercise was completed on 31 Dec 2013, and Ho Hup's share capital was halved to MYR51m. In FY14, there were 92.3m ICPS, 111.4m RCPS and 5.5m warrants being converted, which led to an increase in share capital with 311.3m shares in the market.

Figure 5: The effects of the regularisation exercise on issued & paid-up share capital

	No. of shares (m)	Par value	MYRm
Existing shares prior to regularisation plan	102.00	1.00	102.00
After the proposed par value reduction	102.00	0.50	51.00
To be issued, assuming full conversion of ICPS pursuant to the proposed rights issue of ICPS with warrants	102.00	0.50	51.00
After the issuance of shares pursuant to the full conversion of ICPS	204.00	0.50	102.00
To be issued, assuming full conversion of RCPS pursuant to the proposed scheme of arrangement with creditors	136.63	0.50	68.32
After the issuance of shares pursuant to the full conversion of RCPS	340.63	0.50	170.32
To be issued, assuming full exercise of warrants pursuant to the proposed rights issue of ICPS with warrants	51.00	0.50	25.50
Enlarged issued & paid-up share capital	391.63	0.50	195.82

Source: Company data, RHB

Figure 6: Ho Hup's paid-up share capital as at 31 Dec 2014

	Ordinary shares (m)	ICPS (m)	RCPS (m)	Warrants (m)	Total (m)
No. of securities on 31 Dec 2014	102.0	102.0	133.6	51.0	388.6
Conversion of ICPS	92.3	-92.3	-	-	-
Conversion of RCPS	111.4	-	-111.4	-	-
Exercise of warrants 2013/2018	5.5	-	-	-5.5	-
No. of securities on 31 Dec 2014	311.3	9.7	22.2	45.5	388.6

Source: Company data, RHB

Figure 7: Chronological order of management and legal tussles, and regularisation plan (2010 – 2012)

Date	Details
Jan 2010	The company received a special notice (first notice), pursuant to Sections 128 and 153 of the Companies Act 1965 from Low Chee Group SB (formerly Low Chee & Sons SB) (LCG) and Choo Soo Har, two dissenting shareholders. They were calling for an EGM to remove certain directors of Ho Hup and to appoint new directors who are to reassess the initial proposed regularisation plan. The existing management requested for an extension from Bursa Malaysia to submit a revised regularisation plan.
Feb 2010	Ho Hup obtained an injunction to stop the EGM. Subsequently, it received a special notice (second notice) from LCG and Choo Soo Har, calling for an EGM to remove certain existing directors and to appoint new directors to reassess the initial proposed regularisation plan as well as to implement a revised regularisation plan.
17 Mar 2010	The company announced that Bukit Jalil Development SB (BJD) had on 16 Mar 2010 entered into a joint development agreement (JDA) with Malton's subsidiary, Pioneer Haven SB, to develop the 60-acre land into a mixed commercial and residential development comprising a shopping complex, shop offices, office tower, service apartments and a hotel. On the same day, the company also announced that the shareholders of Ho Hup had passed the resolutions at the EGM held pursuant to the second notice.
30 Mar 2010	Ho Hup sought a further extension to submit its revised regularisation plan, arising from the change in majority of the board.
26 Apr 2010	Ho Hup filed a suit against BJD, Pioneer Haven and nine others, whereby it sought a declaration that the JDA, power of attorney, the endorsement and the undertaking dated 16 Mar 2010 – relating to the development of the 60-acre land – was void.
16 Jul 2010	The company announced that it had entered into a memorandum of understanding (MoU) with Raymond Tan for the purpose of acquiring 100% equity interest in Fivestar Development (Puchong) SB (Fivestar) and Kolektra Recreation SB (Kolektra) at a price to be determined and agreed by Ho Hup and Tan prior to the execution of the agreement, and after taking into consideration the results of the due diligence review and valuation to be conducted. The purchase of Fivestar and Kolektra was to facilitate the undertaking of Ho Hup's revised regularisation plan.
20 Oct 2010	Ho Hup and two of its subsidiaries, namely BJD and Tru-Mix Concrete SB (Tru-Mix), a 90%-owned subsidiary, obtained an order from the court to convene a scheme creditors' meeting to consider and/or approve a proposed restructuring scheme and creditors' scheme of arrangement as well as a restraining order from all further proceedings. The restraining order was extended several times to 23 Jan 2014.
3 Nov 2010	The company announced that it had entered into a share sale agreement (SSA) with Plenitude Bhd (Plenitude) for the proposed acquisition of 100% equity interests in Fivestar and Kolektra. On 4 Nov 2010, M&A Securities was appointed as Ho Hup's principal adviser for its revised regularisation plan.
1 Mar 2011	Ho Hup entered into the definitive agreement with Plenitude to undertake a proposed regularisation plan with the intention of restoring Ho Hup to stronger financial footing.
7 Jun 2011	The court ordered Pioneer Haven to pay all benefits received from the JDA and for the Registrar of Land Titles to expunge or remove the private caveat entered by Pioneer Haven on the 60-acre land. The court further awarded damages together with costs to Ho Hup.
30 Jun 2011	Ho Hup entered into a second restated SSA with Plenitude to acquire 100% equity interest in Fivestar only. It entered into an option agreement with Plenitude to acquire the entire equity interest in Kolektra.
23 Sep 2011	Bank Negara approved the issuance of warrants to the non-resident shareholders and 2.1m RCPS amounting to MYR1.1m to a non-resident creditor of Ho Hup.
20 Dec 2011	The Court of Appeal allowed the appeal by Pioneer Haven against the decision of the court and subsequently, Ho Hup filed a motion for leave to appeal to the Federal Court on 16 Jan 2012.
17 Feb 2012	Ho Hup entered into a deed of termination with Plenitude to terminate the principal SSA.
3 Jul 2012	Ho Hup, BJD and Pioneer Haven came to a settlement relating to the JDA. On the same date, all three parties had entered into the supplemental agreement. Ho Hup had agreed to discontinue its appeal to the Federal Court and to withdraw the legal suit.

Source: Company data, RHB

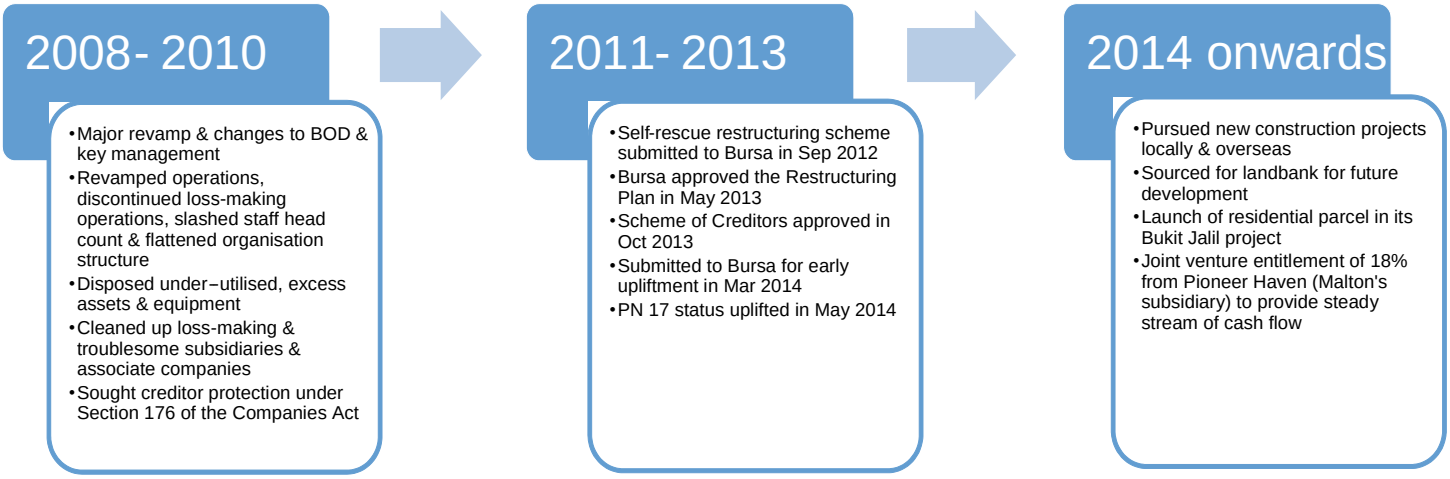
Survived a bitter boardroom and legal tussle. There were disagreements between the Low family and Datuk Vincent Lye (Ho Hup's former deputy executive chairman), which were triggered after the unsuccessful Madagascar project. On 17 Mar 2010, the company removed a few directors and appointed new board members to lead the company (see Figure 7).

On 28 Jun 2011, Mr Wong bought 21m shares (a 20.6% stake) in Ho Hup from Extreme System SB (Extreme System) via his substantial shareholding in Omesti (OMST MK, NR) (formerly known as Formis Resources), the holding company of Omesti Holdings (formerly known as Formis Holdings). Extreme System is the investment vehicle of Datuk Vincent, who was removed from the board in 2010 as a result of the boardroom tussle with the founding Low family. Subsequently, the Lows were also removed from holding executive management positions. Currently, Mr Wong is the only executive director on the board.

In Jul 2012, the litigation between Ho Hup and Malton subsidiary Pioneer Haven was settled (see Figure 7 for further details), with the joint development of 50 acres of land in Bukit Jalil and the company owning the remaining 10 acres. After seven years of losses and the completion of the regularisation plan to exit from PN17, Ho Hup finally returned into the black in FY13 and charted a better performance in FY14.

Earlier exit from PN17. Following seven consecutive years of losses and management's concentrated efforts in completing the regularisation plan, Ho Hup exited PN17 status in May 2014, a month earlier than its targeted date.

Figure 8: Summary of Ho Hup's transformation journey



Source: Company data, RHB

New management to lead for future growth. The company is currently led by CEO Mr Wong. He graduated from the University of British Columbia, Canada, in 1995 as a Bachelor of Commerce holder. He began his career with Citicorp Capital SB (1995-1999) under the corporate finance and analysis unit and was subsequently moved to Citibank's leveraged finance and advisory unit. He then joined Abric (ABR MK, NR) (1999-2007) and served as chief operating officer and executive director during his tenure there. He is a director in Red Zone Development SB, a substantial shareholder of Ho Hup by virtue of its substantial shareholding in Formis Resources, which is the holding company of Formis Holdings. Being an asset-light company, Ho Hup's operations are backed by a team of experienced sub-contractors who were ex-company staff with vast experience in various construction and property development fields.

Three core businesses. Currently, the company focuses on three core businesses, namely construction, property development and ready-mixed concrete unit. Ho Hup owns six batching plants – one each in Bukit Jalil, Subang, Cheras, and Meru and two in Putrajaya. Construction and property development contributed 46% and 44% respectively to its FY14 revenue, while ready-mixed concrete unit contributed about 10%.

Unbilled portion of MYR576.9m in hand. Currently, the company has four construction projects in hand with a total unbilled portion of MYR301.5m (see Figure 9). In addition, Ho Hup's property development project in Bukit Jalil (on 7.2 acres of land) comprises shop offices, SOVOs, two office towers and retail floors, with an estimated GDV of MYR1.1bn (see Figure 10). Its shop offices, retail floors and SOVOs were fully sold, with unbilled sales of MYR275.4m as at end-February. The company's current jobs in hand, together with the combined unbilled amount of MYR576.9m from both divisions, should keep it busy for the next two years.

Figure 9: Construction projects

Project	Location	Description	Contract value (MYRm)	Unbilled amount as at end-Feb 2015 (MYRm)
Johor Military Force camp	Johor	Construction of an integrated army complex	MYR87m	4.4
Al-Zohour	Baghdad, Iraq	Design and execution of civil and electromechanical works, supply and installation of equipment and pipes, operating and maintenance works for a water treatment plant	MYR258.9m	145
Karbala	Baghdad, Iraq	Preparing, developing and maintaining Baghdad-Holy Karbala Road "Second Stage"	MYR61.3m	3.1
Al-Kut	Kut, Province of Wassit	Construction and completion of infrastructure works, which include sewerage, drainage, telecommunication and road works	MYR184m	149
Total				301.5

Source: Company data, RHB

Figure 10: Property development projects

Project	Gross floor area (sq ft)	Estimated GDV (MYRm)	Take-up rate (%)	Launched date
Aurora shop office (3-, 4-, 5-storey shop offices)	480,231	252.4	100%	Sep 2012
SOVO - Tower A (209 units)	226,084	114.9	100%	Sep 2013
Super corner retail floors (4 floors)	44,903	27.9	100%	Mar 2014
Tower C	301,647	22.3	na	na
Level 1-3 of Tower A	31,664	11.7	na	na
Tower B	191,515	101.6	na	na
Car parks (3,000 bays)	966,886	61.6	na	na
Lower ground retail	98,385	46.6	na	na
Service apartment	892,941	468.8	na	Jan 2016**
Total		1,107.80		

*Note: ** expected launch date*
Source: Company data, RHB

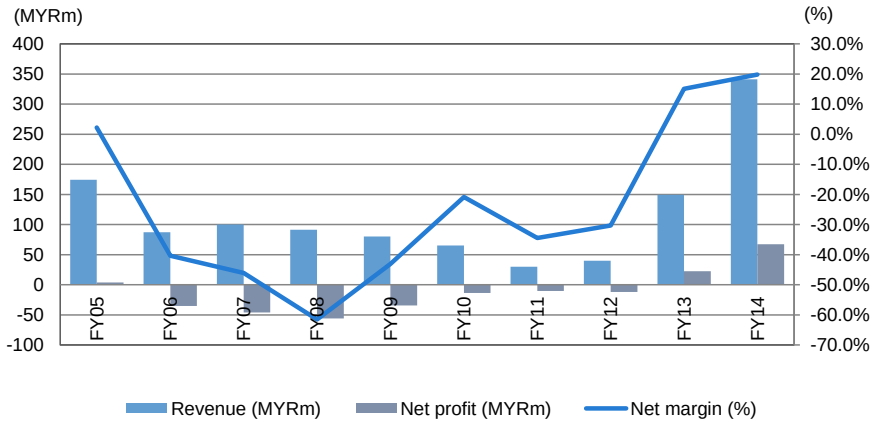
Managing risks and rewards. Ho Hup's expertise in the construction segment includes building construction, engineering, earthworks, highway and road works, railway, bridges, dams, steel pipelines, water treatment and drainage works, among others. Learning from its past experience, the new management is adopting a conservative approach in bidding for construction jobs. Its operation is based on a lean model with relatively low capital investment, whereby it focuses on project management and providing technical expertise, while outsources or leases its machineries and equipment. Currently, the company is bidding for a few potential projects that have a combined value of over MYR600m. For its Bukit Jalil development project, the company has 2.8 acres of undeveloped land reserved for its serviced apartment launch in 2016 with an estimated GDV of MYR470m.

Maiden Myanmar venture. Besides its Malaysian property development projects, Ho Hup has also teamed up with Zaykabar Company Ltd (Zaykabar) to develop the "191 Z Villas" residential project located in Mingalardon Garden City, Myanmar. Zaykabar is a Burmese conglomerate with interests in construction and telecommunications. The two companies incorporated a new company, Ho Hup (Myanmar) E & C Co Ltd, in which Ho Hup owns a 70% stake while Zaykabar holds the remaining 30%. This is Ho Hup's maiden project in Myanmar to build 191 units of villas and bungalows. It had a soft launch in Nov 2014 to launch 21 units of bungalows at the initial stage, with a take-up rate of 48% as at end-Feb 2015.

Financial Overview

Emerges from a prolonged challenging period. Plagued by its legacy problems, PN17 status and insignificant contributions from its core businesses, the company has suffered a prolonged period of losses before turning around in FY13 with a net profit of MYR22.5m. In FY13, the company managed to revive its construction business by getting jobs in Johor and Iraq. Ho Hup managed to chart a better performance in FY14, with a higher net profit of MYR67.5m (+200% YoY) on the back of a 128% YoY surge in revenue to MYR341.0m.

Figure 11: Ho Hup's historical performance



Source: Company, RHB

Property development division to anchor growth. As at end-FY14, construction and property development segments contributed 46% and 44% respectively to its total sales, while ready-mixed concrete unit contributed about 10% of its revenue. Nevertheless, the property development segment contributed higher segmental profit, at about 82% of total profit compared with 18% of total profit from the construction segment, while the ready-mixed concrete unit experienced a minor loss of MYR1.3m in FY14. Going forward, aside from its own property development project, Ho Hup is also banking on contributions from its JV venture with Malton.

Cleaner balance sheet. With seven years of losses, the company's shareholders funds went into the red in FY07-12 before returning to the black with shareholders' funds of MYR83.2m in FY13, following the completion of the regularisation plan. In addition, Ho Hup managed to pare down its debt to MYR35.9m in FY14 from a high of MYR115.0m in FY05. The company had a manageable net gearing of 0.2x as at end-Dec 2014.

Good set of FY14 results. Ho Hup posted a good set of FY14 results. Its net profit surged by 200% to MYR67.4m on the back of a 128% increase in revenue to MYR341.0m. The better performance was attributed to higher profit recognition from its construction and property development segments, as well as higher contribution from its JV project with Malton. Balance sheet also improved, with net gearing improving to 0.2x in FY14 compared with 0.4x in FY13. Segmental-wise, both construction and property development segments posted significant improvements. The construction unit contributed MYR195.8m sales (+111% YoY) while the property development segment contributed MYR186.7m sales (+460% YoY). The company will likely maintain its growth momentum going into FY15, underpinned by strong unbilled sales and greater contribution from the JV project.

Figure 12: Ho Hup's FY14 performance

FYE Dec (MYRm)	4QFY13	3QFY14	4QFY14	QoQ (%)	YoY (%)	YTD FY14	YTD FY13	YoY (%)
Revenue	**48**	**95**	**75**	**-21%**	**57%**	**341**	**149**	**128%**
EBITDA	**25**	**41**	**45**	**10%**	**76%**	**145**	**90**	**62%**
EBITDA Margin (%)	*53%*	*43%*	*60%*	39%	12%	*42%*	*60%*	*-29%*
Depreciation	-16	-16	-17	6%	5%	-64	-68	-6%
EBIT	**9**	**25**	**28**	**12%**	**201%**	**80**	**21**	**280%**
EBIT Margin (%)	*19%*	*26%*	*37%*	*42%*	*92%*	*24%*	*14%*	*66%*
Interest expense	0	0	0	-26%	-27%	-1	-1	-41%
Interest income	0	0	0	NA	NA	0	0	NA
Associates	0	0	0	NA	NA	0	0	NA
EI/Others	0	0	0	NA	NA	0	0	NA
Pretax profit	**9**	**24**	**28**	**13%**	**205%**	**80**	**20**	**295%**
Pretax Margin (%)	*19%*	*26%*	*37%*	*43%*	*95%*	*23%*	*14%*	*73%*
Tax	7	-6	-7	20%	-196%	-13	7	-272%
Effective tax rate (%)	*-83%*	*25%*	*26%*	7%	-132%	*16%*	*-37%*	-144%
Minority Interest	4	0	0	NA	NA	0	5	NA
Net Profit	**13**	**18**	**21**	**12%**	**60%**	**67**	**23**	**200%**
Core Profit	**13**	**18**	**21**	**12%**	**60%**	**67**	**23**	**200%**
Core net margin (%)	*27%*	*19%*	*27%*	*41%*	*-2%*	*20%*	*15%*	*31%*

Source: Bursa Malaysia, RHB

Earnings projection. We expect Ho Hup to rake in net profits of MYR70.3m/MYR99.7m/MYR108.5m for FY15F/FY16F/FY17F respectively. This represents increases of 4.3%/41.7%/8.9% for FY15F/FY16F/FY17F respectively. Overall, we believe growth will largely be driven by property development, especially its JV with Malton, partially supported by a steady stream of profit recognition from its construction arm. The expectation of slower growth in FY15F was largely due to higher base effect in FY14, where net earnings grew 200% YoY. Meanwhile, we expect a 41.7% jump in earnings in FY16F when the JV project with Malton starts to contribute more significantly. In FY17F, we are expecting a more normalised earnings growth of 8.9%, based on larger base impact in FY16. We are projecting 3-year earnings CAGR of 17% for FY14-17.

Industry Prospects

Property development. The property development sector is plagued by tightening mortgage lending from banks that has worsened the property sales outlook. YTD, major launches were lacking as developers are cautious on weak demand, while buyers are adopting a wait-and-see attitude, largely due to anticipation of slower economic growth this year and the possibility of weaker property prices going forward. While we are cautious on the outlook for the property development sector, we believe that the strategic location of Ho Hup's Bukit Jalil project should warrant a decent take-up rate upon launching. The "Pavilion 2" is the key selling point for the proposed property development project, as it is: i) large in size (preliminary estimate of 2.1m sq ft), ii) poised to be the largest mall in the southern area of the Klang Valley, and iii) within the vicinity of Bukit Jalil, Bandar Kinrara, and Seri Kembangan areas.

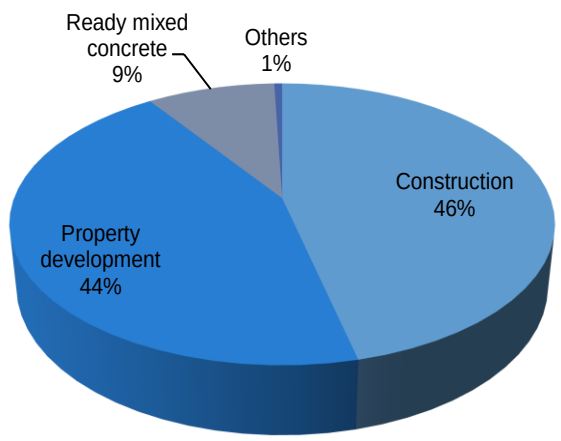
Figure 13: Location map of Bukit Jalil project and its distance to surrounding malls

Source: Google Map, RHB

Construction. The Government has decided to maintain its development expenditure at MYR48.5bn in its revised Budget 2015 despite lower oil revenue. Among the allocations, rural infrastructure development is the biggest recipient, followed by water projects, affordable housing and property/facility maintenance. Given the Government's strong commitment to public infrastructure spending, we believe the current strong momentum of construction activities will be sustained, backed by ongoing mega public infrastructure projects. Among the notable mega public infrastructure projects are the MYR73bn Klang Valley MRT, the Refinery and Petrochemical Integrated Development (RAPID) (MYR89bn), Pan-Borneo Highway (MYR27bn), Penang Transport Master Plan (MYR27bn), and West Coast Expressway (MYR5bn). Currently, Ho Hup is bidding for jobs of over MYR600m, including some structure and infrastructure jobs from RAPID and some government projects in Peninsular Malaysia and Sarawak.

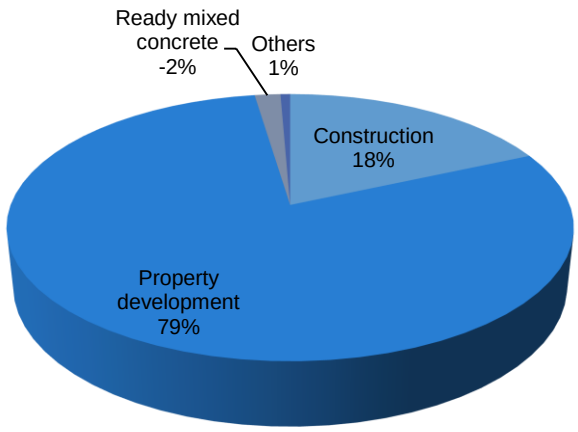
Appendix

Figure 14: FY14 revenue breakdown



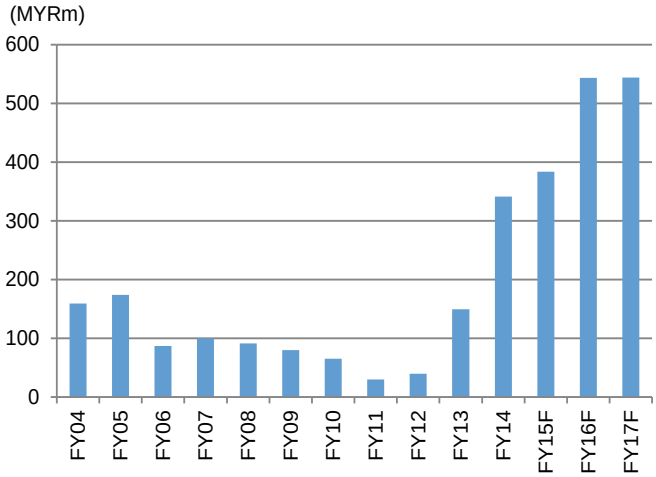
Source: Company, RHB

Figure 15: FY14 segmental profit breakdown



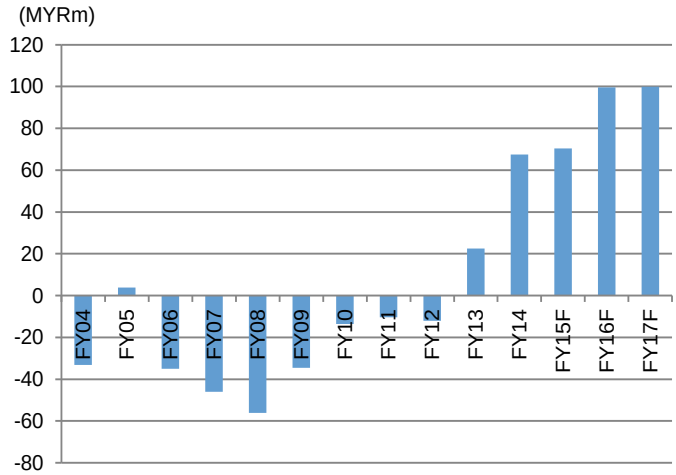
Source: Company, RHB

Figure 16: Revenue



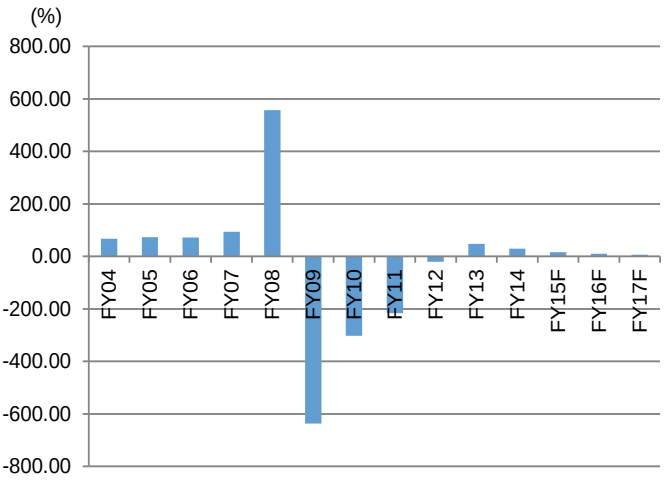
Source: Company, RHB

Figure 17: Net profit/(loss)



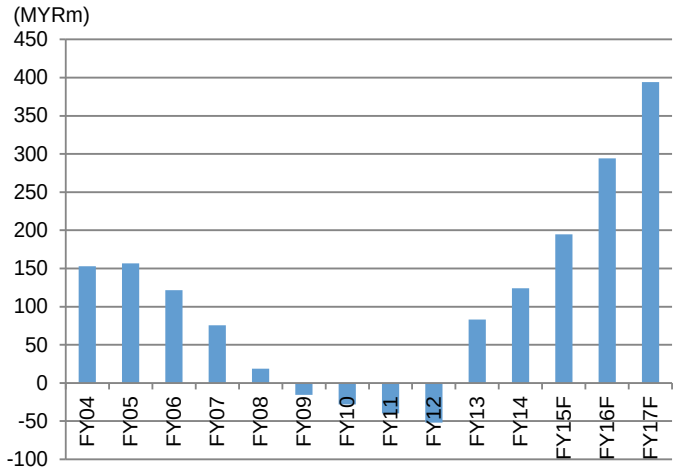
Source: Company, RHB

Figure 18: Debt-to-equity ratio



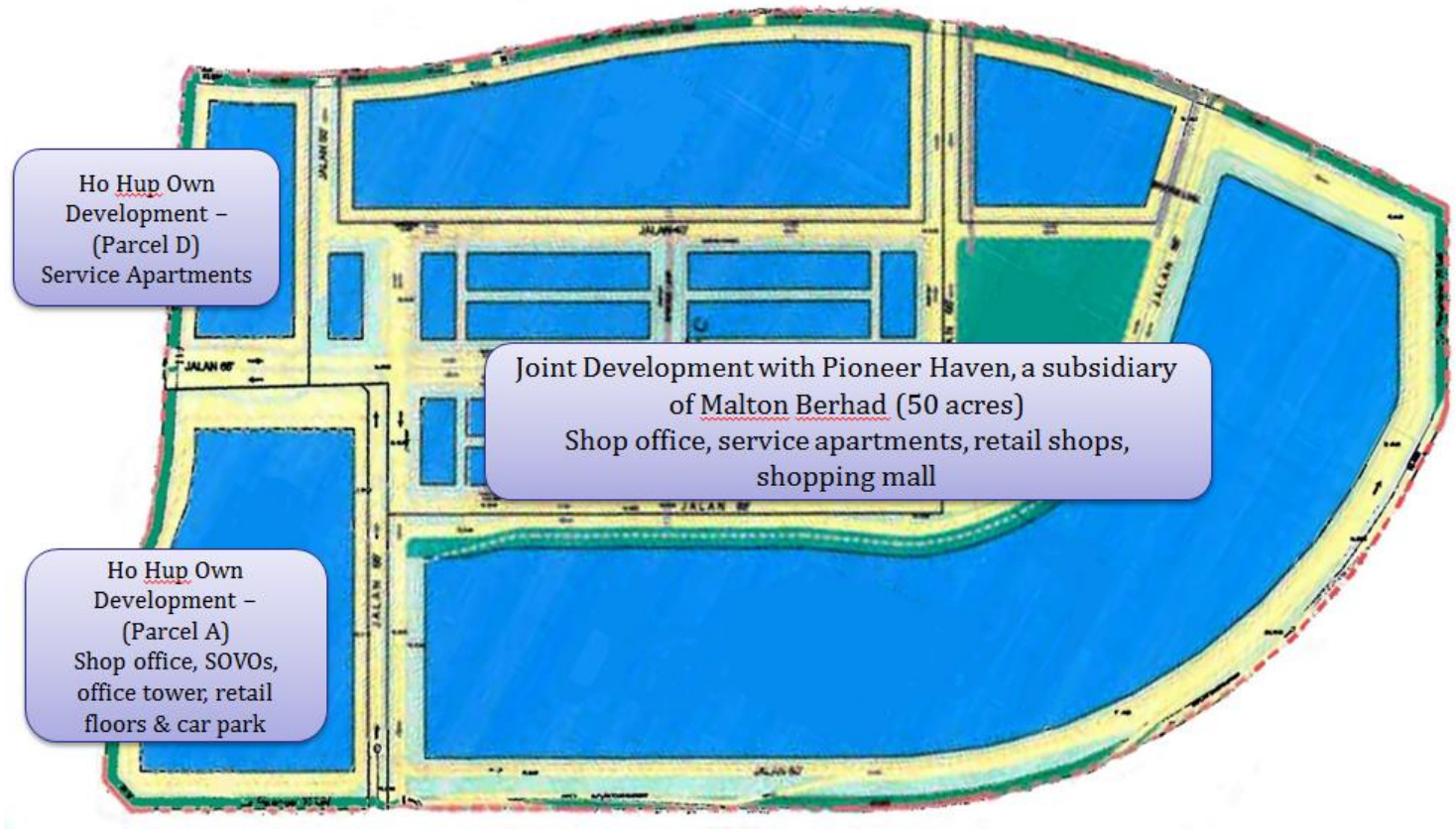
Source: Company, RHB

Figure 19: Shareholder's equity



Source: Company, RHB

Figure 20: Proposed development of the Bukit Jalil project



Source: Company, RHB

Figure 21: Artist's impression of the Bukit Jalil project

Source: Company, RHB

Figure 22: Construction progress of the Bukit Jalil project as at 11 Mar 2015

Source: Company, RHB

Figure 23: Site progress of the Johor Military Force integrated army complex project

Source: Company, RHB

Figure 24: Site progress of the Al-Zuhour project

Source: Company, RHB

Figure 25: Site progress of the Karbala project

Source: Company, RHB

Figure 26: Site progress of the Al-Kut project

Source: Company, RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	149	341	384	543	591
Cost of sales	(130)	(241)	(269)	(380)	(414)
Gross profit	**20**	**100**	**115**	**163**	**177**
Gen & admin expenses	(4)	(7)	(8)	(12)	(13)
Selling expenses	(10)	(15)	(17)	(24)	(26)
Other operating costs	15	2	4	5	6
Operating profit	**21**	**80**	**94**	**133**	**144**
Operating EBITDA	22	82	95	134	146
Depreciation of fixed assets	(1)	(1)	(1)	(1)	(2)
Operating EBIT	**21**	**80**	**94**	**133**	**144**
Interest expense	(1)	(0)	(0)	(0)	(0)
Pre-tax profit	**20**	**80**	**93**	**132**	**144**
Taxation	7	(13)	(23)	(33)	(36)
Minority interests	(5)	0	0	0	0
Profit after tax & minorities	**23**	**67**	**70**	**100**	**108**
Reported net profit	**23**	**67**	**70**	**100**	**108**
Recurring net profit	**23**	**67**	**70**	**100**	**108**

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	**21**	**80**	**94**	**133**	**144**
Depreciation & amortisation	**1**	**1**	**1**	**1**	**2**
Change in working capital	**5**	**(118)**	**15**	**10**	**3**
Other operating cash flow	(12)	(0)	0	0	0
Operating cash flow	**14**	**(37)**	**110**	**144**	**149**
Interest paid	(1)	(1)	(0)	(0)	(0)
Tax paid	0	(20)	(23)	(33)	(36)
Cash flow from operations	**13**	**(57)**	**87**	**111**	**113**
Capex	(5)	(3)	(5)	(5)	(5)
Other investing cash flow	9	(36)	-	-	-
Cash flow from investing activities	**4**	**(39)**	**(5)**	**(5)**	**(5)**
Increase in debt	-	(40)	(4)	(4)	(4)
Other financing cash flow	91	22	-	-	-
Cash flow from financing activities	**91**	**(19)**	**(4)**	**(4)**	**(4)**
Cash at beginning of period	4	107	10	88	190
Total cash generated	**109**	**(115)**	**78**	**102**	**104**
Forex effects	(5)	18	-	-	-
Implied cash at end of period	**107**	**10**	**88**	**190**	**294**

Source: Company data, RHB

Financial Exhibits

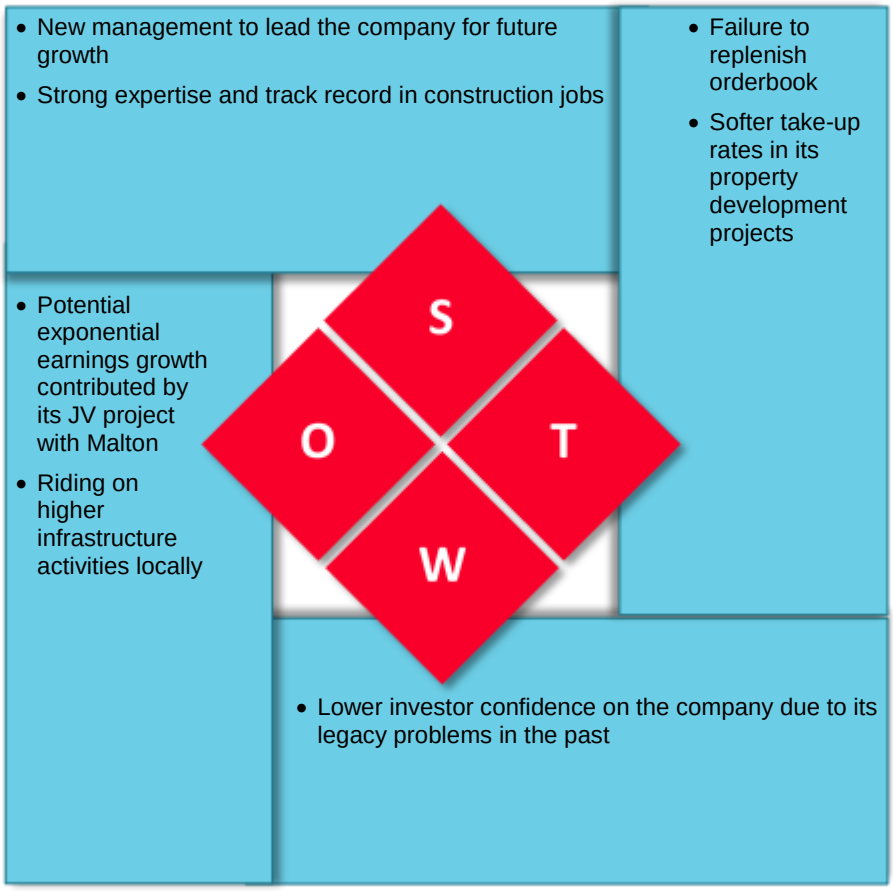
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	107	10	88	190	294
Inventories	1	1	1	1	2
Accounts receivable	46	80	74	104	113
Other current assets	72	222	222	222	222
Total current assets	**226**	**313**	**384**	**517**	**630**
Tangible fixed assets	117	41	44	48	51
Total other assets	8	-	-	-	-
Total non-current assets	125	41	44	48	51
Total assets	**351**	**354**	**429**	**565**	**682**
Short-term debt	40	36	32	28	24
Accounts payable	61	90	99	141	153
Other current liabilities	161	104	104	104	104
Total current liabilities	**262**	**230**	**235**	**272**	**281**
Total liabilities	**262**	**230**	**235**	**272**	**281**
Share capital	53	156	156	156	156
Retained earnings reserve	(94)	(25)	45	145	253
Other reserves	124	(6)	(6)	(6)	(6)
Shareholders' equity	**83**	**124**	**195**	**294**	**403**
Minority interests	6	(1)	(1)	(1)	(2)
Other equity	-	(0)	0	(0)	0
Total equity	**89**	**124**	**194**	**293**	**401**
Total liabilities & equity	**351**	**354**	**429**	**565**	**682**

Source: Company data, RHB

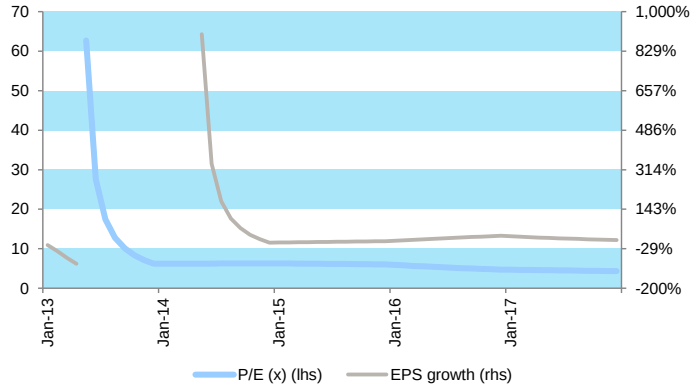
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	273.6	128.3	12.5	41.5	8.8
Operating profit growth (%)	0.0	276.4	16.6	41.5	8.8
Net profit growth (%)	0.0	199.8	4.3	41.7	8.9
EPS growth (%)	0.0	(1.8)	4.3	28.0	8.9
BVPS growth (%)	0.0	(51.1)	56.6	51.2	36.9
Operating margin (%)	14.3	23.5	24.4	24.4	24.4
Net profit margin (%)	15.1	19.8	18.3	18.3	18.4
Return on average assets (%)	8.5	19.1	18.0	20.1	17.4
Return on average equity (%)	143.3	65.0	44.1	40.8	31.1
Net debt to equity (%)	(75.4)	20.8	(28.9)	(55.3)	(67.2)
Recurrent cash flow per share	0.13	(0.18)	0.28	0.32	0.33

Source: Company data, RHB

SWOT Analysis

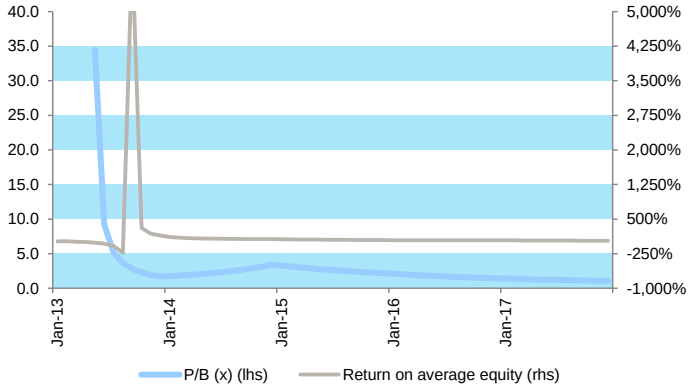


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Ho Hup is involves in construction & civil engineering, property development and ready-mixed concrete production.

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommenda	Target Price	Price
2015-05-15			

Source : RHB, Bloomberg

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