

# Ho Hup Construction (HO MK)

Construction &amp; Engineering - Construction

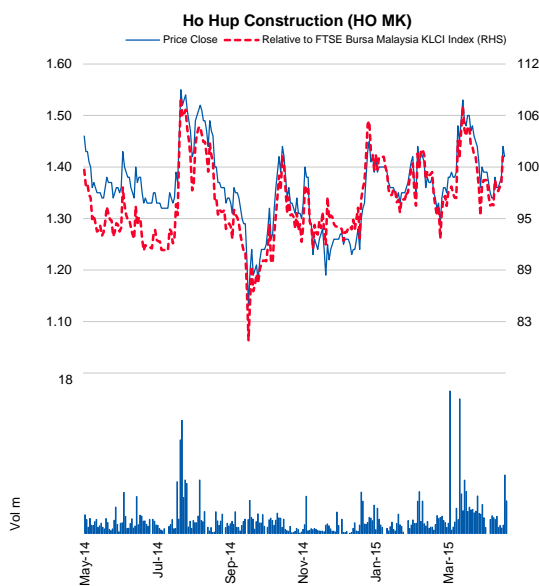
Market Cap: USD136m

**Buy** (Maintained)

Target Price: MYR2.29

Price: MYR1.42

## Better-Than-Expected Numbers In 1Q15

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	3.38m/0.93m
Cons. Upside (%)	16.2
Upside (%)	61.3
52-wk Price low/high (MYR)	1.13 - 1.55
Free float (%)	16
Share outstanding (m)	344
<b>Shareholders (%)</b>	
Low Chee & Sons SB	19.3
Omesti Holdings	16.8
Insas Plaza SB	13.5

**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	12.7	(5.3)	5.2	6.0	(2.7)
Relative	9.2	(4.1)	4.3	6.1	0.7

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Ho Hup's 1Q15 results beat expectations, driven by higher contributions from all core businesses. Maintain BUY with a lower TP of MYR2.29 (61% upside, fully diluted TP: MYR1.76) after updating our SOP valuation for housekeeping purposes to better reflect its latest fundamentals. We remain upbeat on Ho Hup, premised on its strong unbilled sales and higher contribution from its JV project with Malton.

- ◆ **Better than expected.** Ho Hup Construction (Ho Hup) posted a net profit of MYR20.1m (29% of our full year forecast; +78% YoY), on the back of a 7.0% YoY increase in revenue to MYR88.0m. The better-than-expected results were mainly attributed to higher contributions from its three core businesses, which reported segmental profits of: i) MYR3.9m (+430% YoY) from its construction arm, mainly due to a higher level of activities, ii) MYR16.3m (+25% YoY) from its property development division, thanks to higher progress billings from its Aurora Place project and the entitlement from the JV project with Malton (MALT MK, NR), while iii) MYR0.1m (+32% YoY) came from its ready-mixed concrete segment, mainly due to the increase in sales volume and a lower production cost.
- ◆ **Earnings visibility remains intact.** The company has total unbilled sales of MYR576.9m from its construction and property development, which could keep it busy for the next two years. In addition, its JV development with Malton may continue to contribute positive inflows.
- ◆ **BUY and a MYR2.29 TP (fully-diluted TP: MYR1.76).** Following the release of its 2014 annual report, we update our SOP valuation for housekeeping purposes to better reflect its latest fundamentals. We are maintaining a BUY call on Ho Hup, with a lower MYR2.29 TP (vs MYR2.57 previously). Its fully-diluted TP would be MYR1.76 (vs MYR1.90 previously) based on a SOP valuation.
- ◆ **Key risks** include: i) softer take-up rates for its property development projects, and ii) a failure to replenish its orderbook.

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	66	70	100	108
Recurring net profit (MYRm)	23	66	70	100	108
Recurring net profit growth (%)	na	192.2	7.0	41.7	8.9
Recurring EPS (MYR)	0.22	0.21	0.23	0.29	0.31
Recurring P/E (x)	6.44	6.72	6.28	4.91	4.51
P/B (x)	1.74	3.61	2.30	1.51	1.10
P/CF (x)	10.8	na	5.1	4.4	4.3
EV/EBITDA (x)	4.03	5.76	4.09	2.32	1.31
Return on average equity (%)	143.3	63.9	44.6	41.0	31.3
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

**Figure 1: Ho Hup's 1Q15 results review**

FYE Dec (MYRm)	1Q14	4Q14	1Q15	QoQ (%)	YoY (%)	YTD FY14	YTD FY13	YoY (%)	Comments
<b>Revenue</b>	<b>82</b>	<b>75</b>	<b>88</b>	<b>17%</b>	<b>7%</b>	<b>88</b>	<b>82</b>	<b>7%</b>	
<b>EBITDA</b>	<b>11</b>	<b>45</b>	<b>24</b>	<b>-47%</b>	<b>105%</b>	<b>24</b>	<b>11</b>	<b>105%</b>	
<i>EBITDA Margin (%)</i>	14%	60%	27%	NA	NA	27%	14%	NA	
Depreciation	0	-1	0	-63%	472%	0	0	472%	
<b>EBIT</b>	<b>11</b>	<b>28</b>	<b>23</b>	<b>-17%</b>	<b>105%</b>	<b>23</b>	<b>11</b>	<b>105%</b>	
<i>EBIT Margin (%)</i>	14%	37%	26%	NA	NA	26%	14%	NA	
Interest expense	0	0	-1	118%	916%	-1	0	916%	
Interest income	0	0	0	NA	NA	0	0	NA	
Associates	0	0	0	NA	NA	0	0	NA	
El/Others	0	0	0	NA	NA	0	0	NA	
<b>Pretax profit</b>	<b>11</b>	<b>28</b>	<b>22</b>	<b>-18%</b>	<b>99%</b>	<b>22</b>	<b>11</b>	<b>99%</b>	
<i>Pretax Margin (%)</i>	14%	37%	26%	NA	NA	26%	14%	NA	
Tax	0	-7	-2	-65%	NA	-2	0	NA	
<i>Effective tax rate (%)</i>	0%	26%	11%	-57%	NA	11%	0%	NA	
Minority Interest	0	0	0	NA	NA	0	0	NA	
<b>Net Profit</b>	<b>11</b>	<b>21</b>	<b>20</b>	<b>-3%</b>	<b>78%</b>	<b>20</b>	<b>11</b>	<b>78%</b>	
<b>Core Profit</b>	<b>11</b>	<b>21</b>	<b>20</b>	<b>-3%</b>	<b>78%</b>	<b>20</b>	<b>11</b>	<b>78%</b>	
<i>Core net margin (%)</i>	14%	27%	23%	NA	NA	23%	14%	NA	

Source: Company data, RHB

**Figure 2: RNAV valuation**

Total Projects NPV	389.8
Land held for development (book value)	43.1
Property Development Cost	9.8
Other Net Current Assets	161.6
Net profit attributable to existing unbilled sales	82.6
Less Long-term Debt	(18.2)
<b>Total RNAV</b>	<b>668.6</b>
No. of shares (m)	311.3
No. of shares - fully diluted (m)	419.7
<b>RNAV per share</b>	<b>2.15</b>
<b>Fully diluted RNAV per share</b>	<b>1.59</b>
Premium/(Discount)	20%
<b>Fair value - property development segment</b>	<b>1.72</b>

Source: Company data, RHB

**Figure 3: SOP valuation**

	Net profit/ RNAV	Valuation method	P/E or Discount	Value (MYRm)
Construction	19.8	P/E	9.0	178.2
Property development	668.6	RNAV	20%	534.9
				713.1
No. of shares (m)				311.3
Valuation per share (MYR)				2.29
Current price (MYR)				1.42
Percentage of upside (%)				61%
Cash infusion from warrant conversion (MYRm)				27.3
No. of shares - fully diluted (m)				419.7
Fully diluted per share (MYR)				1.76

Source: Company data, RHB

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	149	341	384	543	591
Cost of sales	(130)	(241)	(269)	(380)	(414)
<b>Gross profit</b>	<b>20</b>	<b>100</b>	<b>115</b>	<b>163</b>	<b>177</b>
Gen & admin expenses	(4)	(8)	(8)	(12)	(13)
Selling expenses	(10)	(14)	(17)	(24)	(26)
Other operating costs	15	3	4	5	6
<b>Operating profit</b>	<b>21</b>	<b>81</b>	<b>94</b>	<b>133</b>	<b>144</b>
Operating EBITDA	22	82	95	134	146
Depreciation of fixed assets	(1)	(1)	(1)	(1)	(2)
<b>Operating EBIT</b>	<b>21</b>	<b>81</b>	<b>94</b>	<b>133</b>	<b>144</b>
Interest expense	(1)	(1)	(0)	(0)	(0)
<b>Pre-tax profit</b>	<b>20</b>	<b>80</b>	<b>93</b>	<b>132</b>	<b>144</b>
Taxation	7	(13)	(23)	(33)	(36)
Minority interests	(5)	(1)	0	0	0
<b>Profit after tax &amp; minorities</b>	<b>23</b>	<b>66</b>	<b>70</b>	<b>100</b>	<b>108</b>
<b>Reported net profit</b>	<b>23</b>	<b>66</b>	<b>70</b>	<b>100</b>	<b>108</b>
<b>Recurring net profit</b>	<b>23</b>	<b>66</b>	<b>70</b>	<b>100</b>	<b>108</b>

Source: Company data, RHB

<b>Cash flow (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>21</b>	<b>81</b>	<b>94</b>	<b>133</b>	<b>144</b>
Depreciation & amortisation	1	1	1	1	2
<b>Change in working capital</b>	<b>5</b>	<b>(117)</b>	<b>15</b>	<b>10</b>	<b>3</b>
Other operating cash flow	(12)	(1)	0	0	0
<b>Operating cash flow</b>	<b>14</b>	<b>(36)</b>	<b>110</b>	<b>144</b>	<b>149</b>
Interest paid	(1)	(1)	(0)	(0)	(0)
Tax paid	0	(20)	(23)	(33)	(36)
<b>Cash flow from operations</b>	<b>13</b>	<b>(56)</b>	<b>86</b>	<b>111</b>	<b>113</b>
Capex	(5)	(4)	(5)	(5)	(5)
Other investing cash flow	9	(36)	0	-	-
<b>Cash flow from investing activities</b>	<b>4</b>	<b>(40)</b>	<b>(5)</b>	<b>(5)</b>	<b>(5)</b>
Increase in debt	-	(40)	(4)	(4)	(4)
Other financing cash flow	91	22	-	-	-
<b>Cash flow from financing activities</b>	<b>91</b>	<b>(19)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>
Cash at beginning of period	4	107	10	88	190
<b>Total cash generated</b>	<b>109</b>	<b>(115)</b>	<b>77</b>	<b>102</b>	<b>104</b>
Forex effects	(5)	18	-	-	-
<b>Implied cash at end of period</b>	<b>107</b>	<b>10</b>	<b>88</b>	<b>190</b>	<b>293</b>

Source: Company data, RHB

## Financial Exhibits

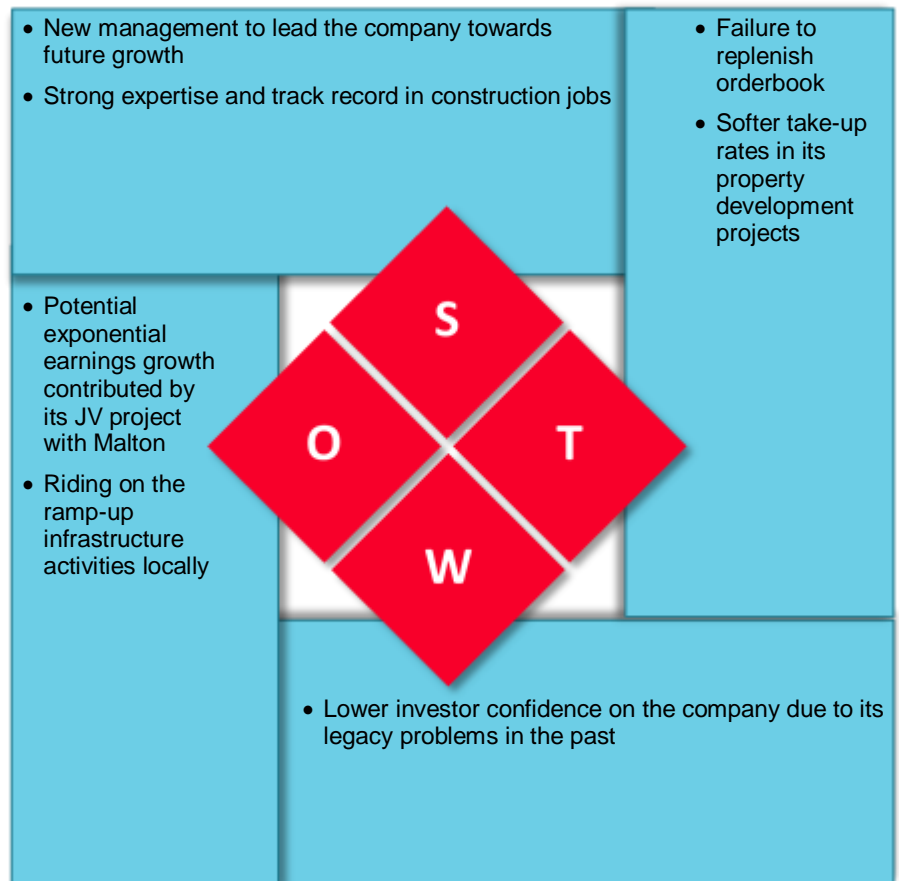
<b>Balance Sheet (MYRm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	107	10	88	190	293
Inventories	1	1	1	1	2
Accounts receivable	46	80	74	104	113
Other current assets	72	251	251	251	251
<b>Total current assets</b>	<b>226</b>	<b>342</b>	<b>413</b>	<b>546</b>	<b>659</b>
Tangible fixed assets	117	21	25	29	32
Total other assets	8	-	-	-	-
Total non-current assets	125	21	25	29	32
<b>Total assets</b>	<b>351</b>	<b>363</b>	<b>438</b>	<b>575</b>	<b>691</b>
Short-term debt	40	18	32	28	24
Accounts payable	61	90	99	141	153
Other current liabilities	161	111	111	111	111
<b>Total current liabilities</b>	<b>262</b>	<b>219</b>	<b>242</b>	<b>279</b>	<b>288</b>
Total long-term debt	-	18	-	-	-
Other liabilities	-	3	3	3	3
<b>Total non-current liabilities</b>	<b>-</b>	<b>21</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Total liabilities</b>	<b>262</b>	<b>240</b>	<b>244</b>	<b>282</b>	<b>290</b>
Share capital	53	156	156	156	156
Retained earnings reserve	(94)	(27)	43	143	251
Other reserves	124	(6)	(6)	(6)	(6)
<b>Shareholders' equity</b>	<b>83</b>	<b>123</b>	<b>193</b>	<b>293</b>	<b>401</b>
Minority interests	6	1	1	0	(0)
Other equity	-	-	0	(0)	0
<b>Total equity</b>	<b>89</b>	<b>124</b>	<b>194</b>	<b>293</b>	<b>401</b>
<b>Total liabilities &amp; equity</b>	<b>351</b>	<b>363</b>	<b>438</b>	<b>575</b>	<b>691</b>

Source: Company data, RHB

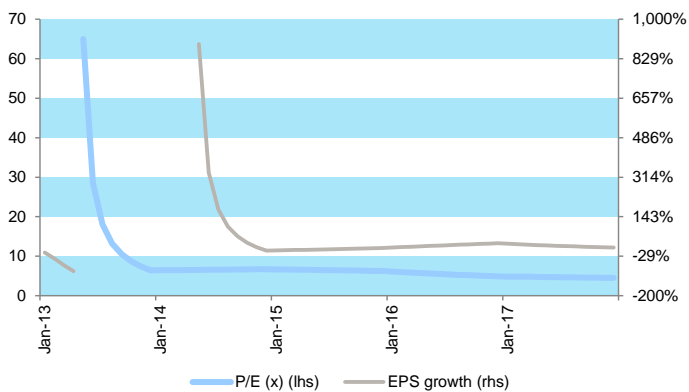
<b>Key Ratios (MYR)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	273.6	128.3	12.5	41.5	8.8
Operating profit growth (%)	0.0	278.0	16.1	41.5	8.8
Net profit growth (%)	0.0	192.2	7.0	41.7	8.9
EPS growth (%)	0.0	(4.3)	7.0	28.0	8.9
BVPS growth (%)	0.0	(51.8)	57.4	51.6	37.1
Operating margin (%)	14.3	23.7	24.4	24.4	24.4
Net profit margin (%)	15.1	19.3	18.3	18.3	18.4
Return on average assets (%)	8.5	18.4	17.6	19.7	17.1
Return on average equity (%)	143.3	63.9	44.6	41.0	31.3
Net debt to equity (%)	(75.4)	20.8	(28.7)	(55.2)	(67.2)
Recurrent cash flow per share	0.13	(0.18)	0.28	0.32	0.33

Source: Company data, RHB

## SWOT Analysis

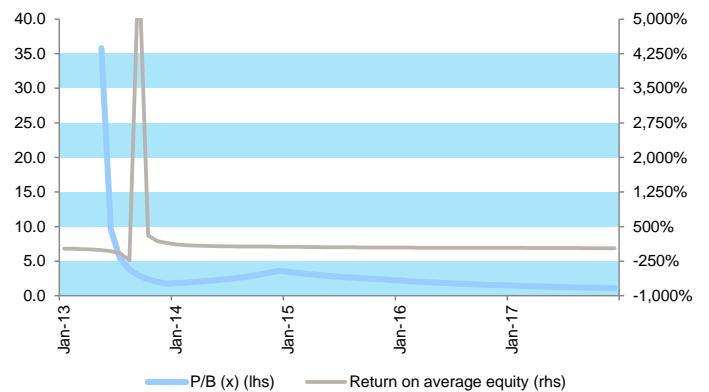


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

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

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-18	Buy	2.57	1.44

Source : RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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