

Ho Hup Construction (HO MK)

Construction & Engineering - Construction

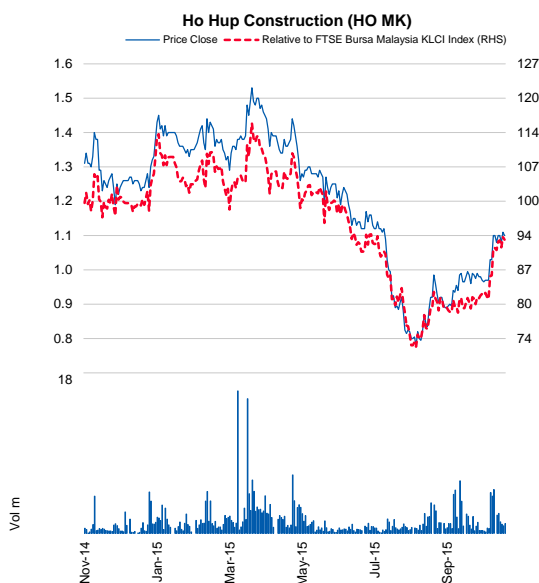
Market Cap: USD87.0m

Buy (Maintained)

Target Price: MYR1.38

Price: MYR1.10

Earnings On Track

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	1.34m/0.31m
Cons. Upside (%)	53.6
Upside (%)	25.5
52-wk Price low/high (MYR)	0.78 - 1.53
Free float (%)	16
Share outstanding (m)	347
Shareholders (%)	
Low Chee & Sons SB	15.6
Omesti Holdings Bhd	15.0
Insas Plaza SB	10.1
Share Performance (%)	
	YTD 1m 3m 6m 12m
Absolute	(12.7) 10.6 24.3 (23.6) (16.0)
Relative	(6.7) 14.1 19.4 (14.4) (7.1)

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9M15's MYR51.6m earnings were within our and consensus expectations, making up 74% of our full-year forecasts. Net earnings improved despite lower revenue, mainly on higher profit recognition from the joint development project with Malton. Maintain BUY and MYR1.38 TP (26% upside) based on a fully-diluted SOP valuation. We make no changes to our earnings forecast.

- ◆ **Within expectations.** Ho Hup Construction's (Ho Hup) 9M15 net earnings of MYR51.6m were within our and consensus' expectations, making up 74% of our full-year forecasts. Its 9M15 revenue declined 20.1% YoY to MYR212.4m on the back of lower contributions from both its construction and property development segments. YTD construction revenue declined 48.3% YoY to MYR84.2m, as both the Johor Military Camp and Karbala projects, which were the major contributors in FY14, are nearing completion. Ho Hup's property development revenue also declined 21.2% YoY, mainly due to lower progress billings for the Phase A of its Bukit Jalil project. Nevertheless, the company's net earnings are supported by the higher contributions from its 18%-stake joint development with Malton's (MALT MK, NR) Pioneer Haven SB. As a result, its 9M15 net profit margins improved to 24.3% (9M14: 17.6%).
- ◆ **Outlook.** As of September, Ho Hup's outstanding construction orderbook – including the recently awarded design and construction job for a proposed polytechnic in Hulu Terengganu and soil improvement work at the Refinery and Petrochemical Integrated Development (RAPID) project – stood at about MYR389.1m. The unbilled sales of its own property development is at MYR248.5m. In addition, we expect the progressive billing from Ho Hup's 18% entitlement in the joint development project to likely continue to support its profit margins. All in, this is expected to provide good earnings visibility for the next two years. Ho Hup is also actively looking for new land to replenish its current landbank/rights of 65 acres (Bukit Jalil and Kota Kinabalu), which are estimated to be fully developed over the next five years. Its proposed acquisition for the land rights in Johor are subject to shareholders' approval.
- ◆ **Maintain BUY at MYR1.38 TP.** We make no changes to our earnings forecasts. We also maintain our BUY rating at an unchanged MYR1.38 TP (26% upside) based on a fully-diluted SOP valuation. Key risks to our forecasts include: i) weaker-than-expected 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	341	549	630
Reported net profit (MYRm)	23	66	70	104	117
Recurring net profit (MYRm)	23	66	70	104	117
Recurring net profit growth (%)	na	192.2	6.4	48.4	12.7
Recurring EPS (MYR)	0.22	0.21	0.20	0.28	0.31
Recurring P/E (x)	4.99	5.21	5.45	3.97	3.52
P/B (x)	1.35	2.80	1.67	1.24	0.92
P/CF (x)	8.37	na	na	3.97	2.76
EV/EBITDA (x)	2.33	4.51	4.38	2.49	1.29
Return on average equity (%)	143.3	63.9	40.0	37.1	30.0
Net debt to equity (%)	net cash	20.8	17.0	net cash	net cash
Our vs consensus EPS (adjusted) (%)			9.1	11.0	0.0

Source: Company data, RHB

Figure 1: Ho Hup's 9M15 results review

FYE Dec (MYRm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	YTD FY15	YTD FY14	YoY (%)	Comments
Revenue	95.0	61.6	62.8	2.0%	-33.9%	212.4	266.0	-20.1%	Due to lower contribution from construction (-48.3% YoY) and property development (-21.2% YoY) but offset by higher revenue from the ready mix concrete division (+72.2% YoY).
EBITDA	44.7	16.4	19.1	16.2%	-57.3%	59.0	53.2	11.0%	
<i>EBITDA Margin (%)</i>	<i>47%</i>	<i>27%</i>	<i>30%</i>	NA	NA	<i>28%</i>	<i>20%</i>	NA	
Depreciation	-0.1	-0.5	-0.5	2.6%	357.8%	-1	0	436.5%	
EBIT	24.8	15.8	18.5	17.3%	-25.2%	57.3	52.5	9.2%	
<i>EBIT Margin (%)</i>	<i>26%</i>	<i>26%</i>	<i>29%</i>	NA	NA	<i>27%</i>	<i>20%</i>	NA	
Interest expense	-0.4	-0.3	-0.7	133.3%	88.9%	-1.5	-0.4	306.1%	
Interest income	0.0	0.2	0.1	-62.0%	NA	0.0	0.0	NA	
Associates	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
El/Others	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
Pretax profit	24.5	15.7	17.9	14.4%	-26.7%	56.1	52.5	6.8%	
<i>Pretax Margin (%)</i>	<i>26%</i>	<i>25%</i>	<i>29%</i>	NA	NA	<i>26%</i>	<i>20%</i>	NA	
Tax	-6.0	-1.5	-0.9	-41.2%	-85.3%	-4.9	-5.7	NA	
<i>Effective tax rate (%)</i>	<i>25%</i>	<i>10%</i>	<i>5%</i>	NA	NA	<i>9%</i>	<i>11%</i>	NA	
Minority Interest	0.0	0.0	-0.3	NA	NA	-0.4	0.0	NA	
Net Profit	18.5	14.2	17.3	22.0%	-6.4%	51.6	46.8	10.1%	
Core Profit	18.5	14.2	17.3	22.0%	-6.4%	51.6	46.8	10.1%	
<i>Core net margin (%)</i>	<i>19%</i>	<i>23%</i>	<i>28%</i>	NA	NA	<i>24%</i>	<i>18%</i>	NA	

Source: Company data, RHB

Figure 2: Ho Hup's property RNAV valuation

	(MYRm)
Total projects' NPV @13%	362.3
Net profit attributable to existing unbilled sales	71.1
Shareholders' equity	191.9
Total RNAV	625.2

Source: Company data, RHB

Figure 3: Ho Hup's SOP valuation

	Net profit/ RNAV	Valuation method	Multiple/Adjustment	Value (MYRm)
Construction	16.5	P/E	9x FY16F	148.9
Property development	625.2	RNAV	35%	<u>406.4</u>
				555.3
Conversion of warrants @MYR0.60				27.26
ESOS proceeds (MYRm)				<u>4.44</u>
Total SOP value				587.0
No. of shares (m)				345.1
No. of warrants (m)				45.43
ESOS (m)				6.0
ICPS (m)				8.2
RCPS (m)				<u>20.9</u>
No. of shares - fully diluted (m)				425.7
Fully-diluted target share (MYR)				1.38

Source: Company data, RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	149	341	341	549	630
Cost of sales	(130)	(241)	(229)	(374)	(424)
Gross profit	20	100	112	175	207
Gen & admin expenses	(4)	(8)	(7)	(12)	(15)
Selling expenses	(10)	(14)	(14)	(25)	(32)
Other operating costs	15	3	3	3	3
Operating profit	21	81	95	140	163
Operating EBITDA	22	82	96	142	164
Depreciation of fixed assets	(1)	(1)	(1)	(2)	(2)
Operating EBIT	21	81	95	140	163
Interest expense	(1)	(1)	(2)	(2)	(2)
Pre-tax profit	20	80	93	138	161
Taxation	7	(13)	(23)	(35)	(40)
Minority interests	(5)	(1)	0	0	(4)
Profit after tax & minorities	23	66	70	104	117
Reported net profit	23	66	70	104	117
Recurring net profit	23	66	70	104	117

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	21	81	95	140	163
Depreciation & amortisation	1	1	1	2	2
Change in working capital	5	(117)	(34)	(1)	27
Other operating cash flow	(12)	(21)	(51)	-	-
Operating cash flow	14	(56)	12	140	191
Interest paid	(1)	(1)	(2)	(2)	(2)
Tax paid	0	(0)	(23)	(35)	(40)
Cash flow from operations	13	(56)	(13)	104	149
Capex	(5)	(4)	(5)	(5)	(5)
Other investing cash flow	4	(18)	(30)	-	-
Cash flow from investing activities	(1)	(22)	(35)	(5)	(5)
Increase in debt	40	(22)	70	-	(20)
Other financing cash flow	51	3	35	-	-
Cash flow from financing activities	91	(19)	105	-	(20)
Cash at beginning of period	4	107	10	67	166
Total cash generated	103	(97)	57	99	124
Forex effects	(0)	0	-	-	-
Implied cash at end of period	107	10	67	166	290

Source: Company data, RHB

Financial Exhibits

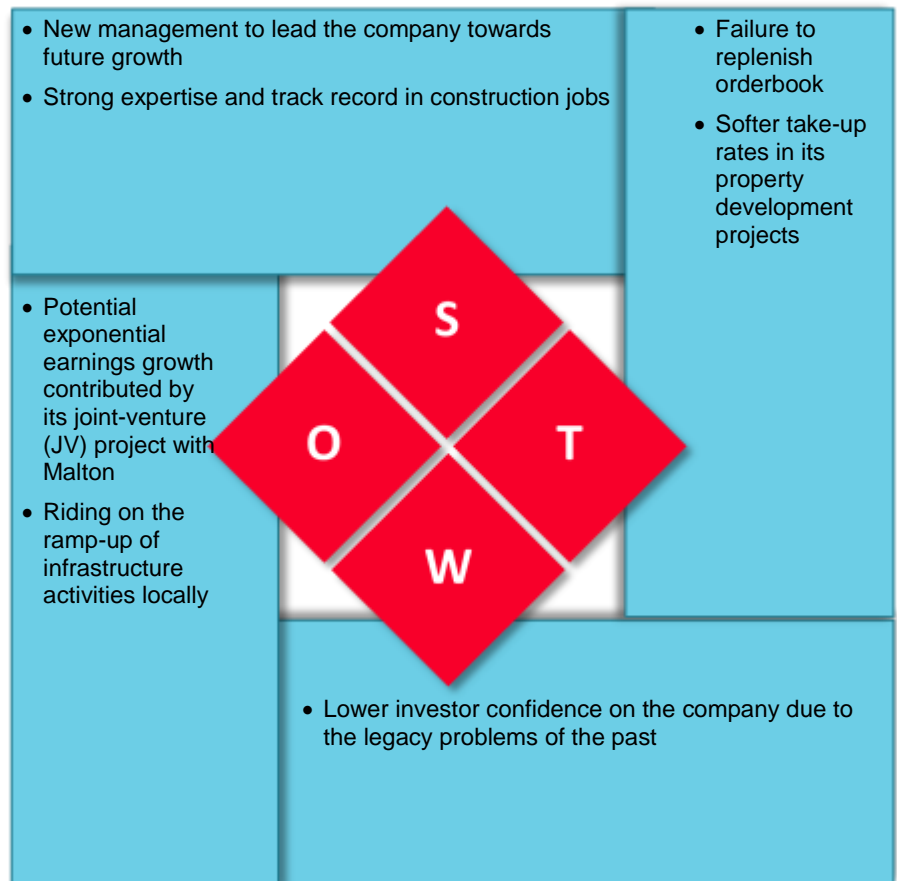
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	107	10	67	166	290
Inventories	1	1	1	2	2
Accounts receivable	46	80	112	150	121
Other current assets	72	251	243	257	277
Total current assets	226	342	423	575	690
Tangible fixed assets	117	21	106	109	113
Total other assets	8	-	-	-	-
Total non-current assets	125	21	106	109	113
Total assets	351	363	529	684	803
Short-term debt	40	18	42	53	52
Accounts payable	61	90	81	133	151
Other current liabilities	161	111	111	111	111
Total current liabilities	262	219	234	297	313
Total long-term debt	-	18	64	53	34
Other liabilities	-	3	3	3	3
Total non-current liabilities	-	21	66	56	37
Total liabilities	262	240	301	352	350
Share capital	53	156	173	187	187
Retained earnings reserve	(94)	(27)	43	147	264
Other reserves	124	(6)	12	(2)	(2)
Shareholders' equity	83	123	228	332	449
Minority interests	6	1	1	1	4
Other equity	-	-	(0)	0	-
Total equity	89	124	229	332	453
Total liabilities & equity	351	363	529	684	803

Source: Company data, RHB

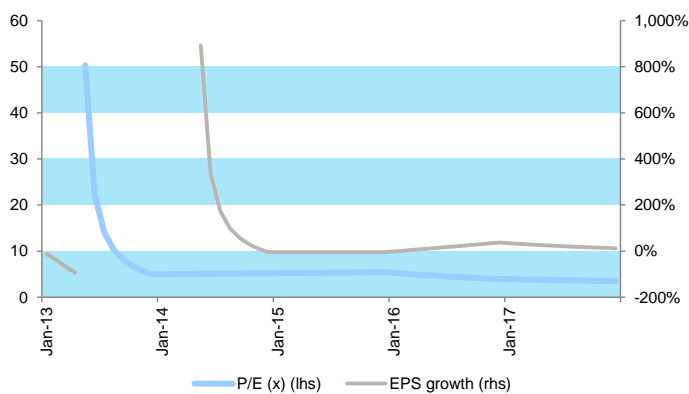
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	273.6	128.3	(0.0)	60.9	14.9
Operating profit growth (%)	0.0	278.0	17.3	48.2	16.0
Net profit growth (%)	0.0	192.2	6.4	48.4	12.7
EPS growth (%)	0.0	(4.3)	(4.4)	37.4	12.7
BVPS growth (%)	0.0	(51.8)	67.1	35.0	35.3
Operating margin (%)	14.3	23.7	27.8	25.6	25.8
Net profit margin (%)	15.1	19.3	20.5	18.9	18.6
Return on average assets (%)	8.5	18.4	15.7	17.1	15.7
Return on average equity (%)	143.3	63.9	40.0	37.1	30.0
Net debt to equity (%)	(75.4)	20.8	17.0	(18.0)	(45.1)
Recurrent cash flow per share	0.13	(0.18)	(0.04)	0.28	0.40

Source: Company data, RHB

SWOT Analysis

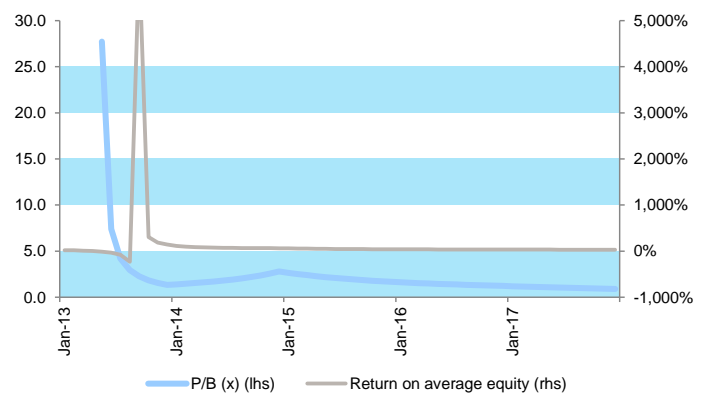


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Ho Hup Construction (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
2015-09-28	Buy	1.38	0.89
2015-08-21	Buy	1.77	0.88
2015-07-02	Buy	1.96	1.23
2015-05-20	Buy	2.29	1.39
2015-05-18	Buy	2.57	1.44

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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

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