

Ho Hup Construction (HO MK)

Construction & Engineering - Construction

Market Cap: USD72.7m

Buy (Maintained)

Target Price: MYR1.38

Price: MYR0.90

Raising Funds For Capital Requirements

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

| | |
|----------------------------|-------------|
| Avg Turnover (MYR/USD) | 1.00m/0.23m |
| Cons. Upside (%) | 87.8 |
| Upside (%) | 53.3 |
| 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 | 15.0 |
| Insas Plaza SB | 11.2 |

| | | | | | |
|------------------------------|--------|--------|-------|--------|--------|
| Share Performance (%) | | | | | |
| | YTD | 1m | 3m | 6m | 12m |
| Absolute | (15.1) | (11.8) | (9.1) | (22.4) | (35.3) |
| Relative | (11.2) | (9.6) | (4.4) | (16.9) | (25.8) |

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Ho Hup has announced multiple proposals for the rights issue of ordinary and redeemable preference shares plus free detachable new warrants. Maintain BUY with an unchanged fully-diluted SOP-derived MYR1.38 TP (53% upside). The proceeds would mainly be used for its debt repayment and working capital requirements. We expect this exercise to somewhat benefit its capital structure as it actively expands.

- ◆ **Multiple proposals.** Ho Hup Construction (Ho Hup) is proposing to undertake the rights issues of ordinary shares (rights shares) and redeemable preference shares (RPS), with each issuance to amount to 20% of the outstanding shares on an entitlement date to be determined later. In addition, there is to be a free detachable new warrant for every new share subscribed. The issue price of the rights shares and RPS – which are to be determined later – would take into consideration the 5-day volume weighted average market price (VWAMP) of Ho Hup's shares immediately prior to the price-fixing date as well as the group's funding requirements. However, it should not be lower than MYR0.50. Both RPS and warrants are to have 5-year tenures. These proposals are targeted for completion by 2Q16.
- ◆ **Rationale.** Ho Hup has been pushing its landbank replenishment pace over the past few months by acquiring stakes in companies that own the rights to develop land in Kota Kinabalu, Sabah, and Kulai, Johor. On top of that, it has also made inroads into the granite quarry business in Malacca. We expect the fund-raising exercise to somewhat bolster the group's capital structure amidst its active expansion. Based on an indicative issue price of MYR0.80, the initial proceeds from the rights issues could raise about MYR111m-136.2m, which would mainly be used for Ho Hup's debt repayment and working capital requirements. In our maximum scenario analysis (Figure 2), we estimate the group's gearing ratio to decrease to below 0.25x and net profit to improve marginally in FY16. Assuming a full conversion of the new warrants under the maximum scenario, our SOP-derived TP would be further diluted to MYR1.16 (from MYR1.38).
- ◆ **Maintain BUY.** We make no changes to our earnings forecasts at this juncture, pending management's updates on various projects. We are also likely to revise our valuations accordingly when we obtain more details about the proposals. As such, we maintain our TP at MYR1.38, based on a fully-diluted SOP valuation (53% upside).

| 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 | 5.8 | 49.0 | 12.7 |
| Recurring EPS (MYR) | 0.22 | 0.21 | 0.20 | 0.28 | 0.31 |
| Recurring P/E (x) | 4.08 | 4.26 | 4.46 | 3.25 | 2.88 |
| P/B (x) | 1.10 | 2.29 | 1.37 | 1.02 | 0.75 |
| P/CF (x) | 6.85 | na | na | 3.25 | 2.26 |
| EV/EBITDA (x) | 1.40 | 3.75 | 3.65 | 1.96 | 0.84 |
| Return on average equity (%) | 143.3 | 63.9 | 39.8 | 37.2 | 30.0 |
| Net debt to equity (%) | net cash | 20.8 | 17.3 | net cash | net cash |
| Our vs consensus EPS (adjusted) (%) | | | 9.0 | 10.8 | 0.0 |

Source: Company data, RHB

Figure 1: 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% | 406.4 |
| | | | | 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 price (MYR) | | | | 1.38 |

Source: Company data, RHB

Figure 2: Scenario analysis

| | Current FY16F | Potential (maximum) FY16F | Variance % |
|--------------------------------------|------------------|---------------------------------|---------------|
| PATAMI (MYRm) | 103.7 | 105.3 | 2% |
| Gearing (x) | 0.33 | 0.23 | -31% |
| Total SOP value (MYRm) | 587.0 | 789.1* | 34% |
| No. of shares - fully diluted (m) | 425.7 | 681.1 | 60% |
| Fully diluted TP (MYR) | 1.38 | 1.16 | -16% |

Note: *Indicative issue price of rights shares and exercise prices of warrants are MYR0.80

Source: 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) | (34) | (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) | (34) | (40) |
| Cash flow from operations | 13 | (56) | (14) | 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 | 165 |
| Total cash generated | 103 | (97) | 56 | 99 | 124 |
| Forex effects | (0) | 0 | - | - | - |
| Implied cash at end of period | 107 | 10 | 67 | 165 | 289 |

Source: Company data, RHB

Financial Exhibits

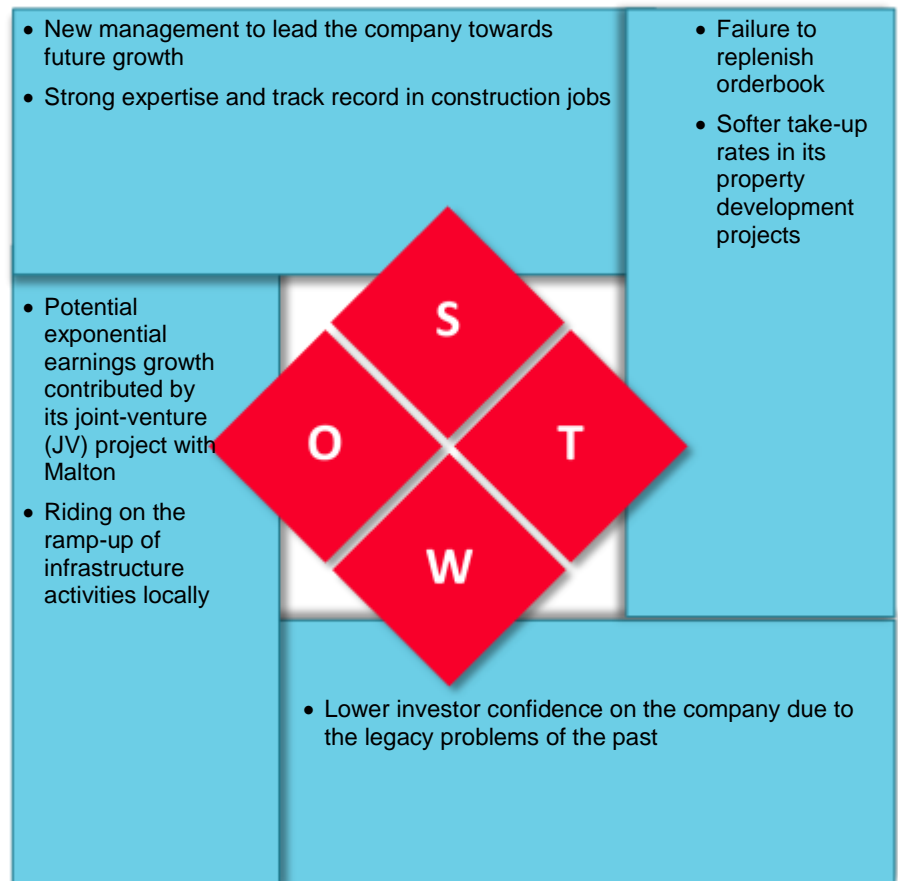
| Balance Sheet (MYRm) | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F |
|---------------------------------------|------------|------------|------------|------------|------------|
| Total cash and equivalents | 107 | 10 | 67 | 165 | 289 |
| Inventories | 1 | 1 | 1 | 2 | 2 |
| Accounts receivable | 46 | 80 | 112 | 150 | 121 |
| Other current assets | 72 | 251 | 243 | 257 | 277 |
| Total current assets | 226 | 342 | 423 | 574 | 689 |
| 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 | 802 |
| 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) | 42 | 146 | 263 |
| Other reserves | 124 | (6) | 12 | (2) | (2) |
| Shareholders' equity | 83 | 123 | 227 | 331 | 448 |
| Minority interests | 6 | 1 | 1 | 1 | 4 |
| Other equity | - | - | 0 | 0 | - |
| Total equity | 89 | 124 | 228 | 331 | 452 |
| Total liabilities & equity | 351 | 363 | 529 | 684 | 802 |

Source: Company data, RHB

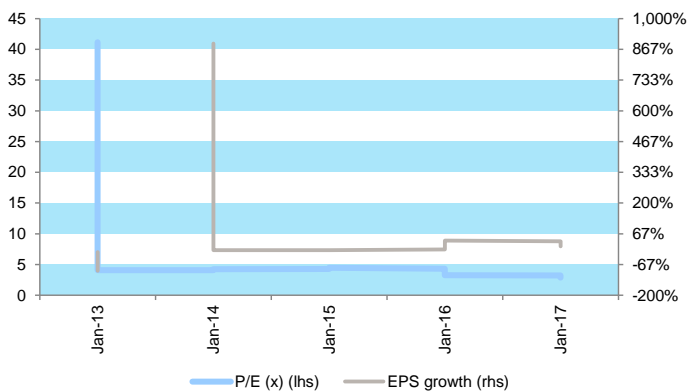
| Key Ratios (MYR) | Dec-13 | Dec-14 | Dec-15F | Dec-16F | Dec-17F |
|-------------------------------|--------|--------|---------|---------|---------|
| Revenue growth (%) | 273.6 | 128.3 | (0.0) | 60.9 | 14.9 |
| Operating profit growth (%) | 0.0 | 278.0 | 17.3 | 48.2 | 16.0 |
| Net profit growth (%) | 0.0 | 192.2 | 5.8 | 49.0 | 12.7 |
| EPS growth (%) | 0.0 | (4.3) | (4.5) | 37.4 | 12.7 |
| BVPS growth (%) | 0.0 | (51.8) | 67.2 | 34.5 | 35.3 |
| Operating margin (%) | 14.3 | 23.7 | 27.8 | 25.6 | 25.8 |
| Net profit margin (%) | 15.1 | 19.3 | 20.4 | 18.9 | 18.5 |
| Return on average assets (%) | 8.5 | 18.4 | 15.6 | 17.1 | 15.7 |
| Return on average equity (%) | 143.3 | 63.9 | 39.8 | 37.2 | 30.0 |
| Net debt to equity (%) | (75.4) | 20.8 | 17.3 | (17.9) | (44.9) |
| Recurrent cash flow per share | 0.13 | (0.18) | (0.04) | 0.28 | 0.40 |

Source: Company data, RHB

SWOT Analysis

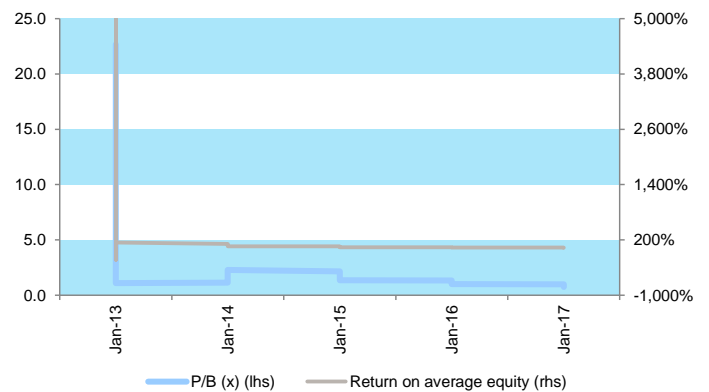


P/E (x) vs EPS growth



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 |
|------------|----------------|--------------|-------|
| 2015-11-19 | Buy | 1.38 | 1.10 |
| 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

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