

17 February 2016

Construction & Engineering | Construction

Ho Hup Construction

Buy (Maintained)

Expecting Decent Earnings Growth For FY16

Target Price: MYR1.22
 Price: MYR0.845
 Market Cap: USD70.6m
 Bloomberg Ticker: HO MK

Post our recent meeting with management, we expect no negative FY15 earnings surprises. Maintain BUY with a lower SOP-derived MYR1.22 TP (from MYR1.38, 44% upside) after updating its unbilled construction orderbook, timeline and property development GDVs. We also ascribe a higher 40% discount to RNAV (from 35%) to reflect the challenging outlook for the property market.

Proceeding with Johor land rights acquisition. Ho Hup Construction (Ho Hup) has received shareholders' approval to acquire a 52.5% effective stake in Intact Corporate Approach SB (ICA) and the 429-acre land rights in Kulai, Johor. As a result, its landbank/rights are expected to increase progressively to 494 acres over the next five years as ICA settles a MYR107.8m total purchase consideration in stages. The land has been earmarked for township development over 15 years and has an initial estimated GDV of ~MYR2bn. That said, we are cautious on the Johor market due to the oversupply situation there. We only expect more meaningful earnings to come in beyond FY17. As at Dec 2015, the unbilled sales of Ho Hup's own property development in Bukit Jalil stood at ~MYR234m. Additionally, we expect progressive billing from its joint development with Pioneer Haven SB to improve after taking into consideration the encouraging demand from Phase 2B (1,120 service apartment units).

Focus on local construction contracts. We note that Ho Hup's overseas construction projects in Iraq have been suspended on security concerns. As such, its unbilled construction orderbook has declined to MYR96.4m as at Dec 2015 (Sep 2015: MYR389.1m). Nevertheless, the impact to bottomline is likely to be minimal due to the low margin nature of these jobs. Instead, we believe this enables Ho Hup to centralise its resources in bidding for new construction projects locally. As at Dec 2015, total projects under bidding and negotiation stood at ~MYR1.7bn.

Forecasts. We expect FY15 earnings to meet our expectations. However, we cut our net profit forecasts for FY16-17 by 14.4%/14.8% respectively after a revision to the outstanding unbilled construction orderbook as well as our assumptions for the timeline and take-up rates of new property launches. Net earnings growth is expected to remain decent at ~28.7% and ~12.2% for FY16-17. Risks to our forecasts include weaker-than-expected take-up rates for its property development projects and a failure to replenish its orderbook.

Maintain BUY. Our SOP-derived TP has been revised to MYR1.22 (from MYR1.38) following our earnings revisions and the inclusion of the Johor land's GDV. We also ascribed a higher discount to RNAV of 40% (from 35%) to reflect the persistently weak property market. The TP might be diluted to MYR1.06 under the maximum scenario of Ho Hup's proposed rights issue plus free detachable new warrants. This fully-diluted TP gives a potential 25.4% upside at the current share price level. Maintain BUY.

Share Data

Avg Daily Turnover (MYR/USD) 0.72m/0.17m
 52-wk Price low/high (MYR) 0.78 - 1.53
 Free Float (%) 16
 Shares outstanding (m) 347
 Estimated Return 44%

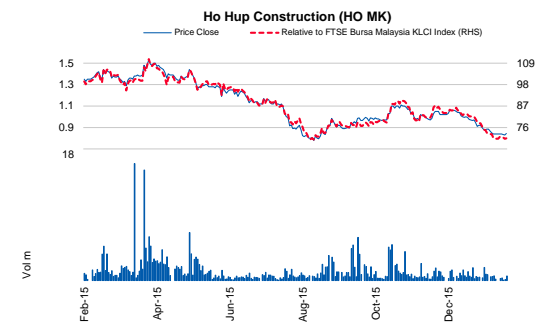
Shareholders (%)

Low Chee & Sons SB 15.6
 Omesti Holdings 15.0
 Insas Plaza SB 11.2

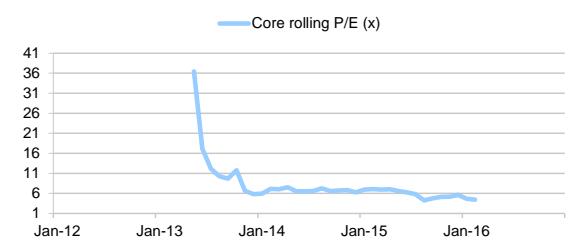
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(20.3)	(12.9)	(21.8)	(5.1)	(37.4)
Relative	(18.7)	(15.1)	(22.3)	(9.4)	(29.4)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	149	341	296	411	483
Reported net profit (MYRm)	22.5	65.8	69.0	88.8	99.6
Recurring net profit (MYRm)	22.5	65.8	69.0	88.8	99.6
Recurring net profit growth (%)	na	192.2	4.9	28.7	12.2
Recurring EPS (MYR)	0.22	0.21	0.20	0.24	0.27
Recurring P/E (x)	3.83	4.00	4.25	3.57	3.18
P/B (x)	1.07	2.15	1.29	1.00	0.76
P/CF (x)	6.4	na	na	45.9	4.5
EV/EBITDA (x)	1.25	3.54	4.54	3.75	2.94
Return on average equity (%)	154.9	64.7	39.6	32.8	27.3
Net debt to equity (%)	net cash	20.8	30.9	32.7	15.2
Our vs consensus EPS (adjusted) (%)			7.5	(5.2)	0.0

Source: Company data, RHB

Analyst

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Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F	Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	149	341	296	411	483	Operating profit	21	81	82	120	140
Cost of sales	(130)	(241)	(196)	(276)	(326)	Depreciation & amortisation	1	1	2	2	2
Gross profit	20	100	100	135	157	Change in working capital	5	(117)	(123)	(84)	(36)
Gen & admin expenses	(4)	(8)	(10)	(9)	(11)	Other operating cash flow	(12)	(21)	(0)	-	-
Selling expenses	(10)	(14)	(10)	(12)	(13)	Operating cash flow	14	(56)	(39)	38	106
Other operating costs	15	3	3	6	7	Interest paid	(1)	(1)	(2)	(2)	(2)
Operating profit	21	81	82	120	140	Tax paid	0	(0)	(11)	(28)	(33)
EBITDA	22	82	84	122	142	Cash flow from operations	13	(56)	(52)	7	71
Depreciation of fixed assets	(1)	(1)	(2)	(2)	(2)	Capex	(5)	(4)	(3)	(45)	(27)
Operating profit	21	81	82	120	140	Other investing cash flow	4	(18)	(29)	-	-
Interest expense	(1)	(1)	(2)	(2)	(2)	Cash flow from investing activities	(1)	(22)	(32)	(45)	(27)
Pre-tax profit	20	80	80	117	138	Proceeds from issue of shares	-	3	35	-	-
Taxation	7	(13)	(11)	(28)	(33)	Increase in debt	40	(22)	67	33	(10)
Minority interests	(5)	(1)	(1)	(0)	(5)	Other financing cash flow	51	-	-	-	-
Reported net profit	23	66	69	89	100	Cash flow from financing activities	91	(19)	102	33	(10)
Recurring net profit	23	66	69	89	100	Cash at beginning of period	4	107	10	29	24

Source: Company data, RHB

Key Ratios	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	273.6	128.3	(13.2)	39.0	17.4
Operating profit growth (%)	0.0	278.0	2.0	45.6	17.0
Recurring net profit growth (%)	0.0	192.2	4.9	28.7	12.2
Recurrent EPS growth (%)	0.0	(4.3)	(5.9)	19.2	12.2
Gross margin (%)	13.2	29.3	33.8	32.9	32.6
Operating EBITDA margin (%)	14.7	24.0	28.4	29.6	29.4
Operating margin (%)	14.3	23.7	27.8	29.1	29.0
Recurring net profit margin (%)	15.1	19.3	23.3	21.6	20.6
Return on average assets (%)	8.5	18.4	14.3	13.2	12.7
Return on average equity (%)	154.9	64.7	39.6	32.8	27.3
Net debt to equity (%)	(75.4)	20.8	30.9	32.7	15.2
Interest cover (x)	20	141	44	49	62
Capex/Free cash flow (%)	37.1	(7.1)	(4.8)	650.8	37.9
BVPS (MYR)	0.79	0.39	0.65	0.84	1.11
Free cash flow per share (MYR)	0.08	(0.19)	(0.16)	(0.10)	0.12

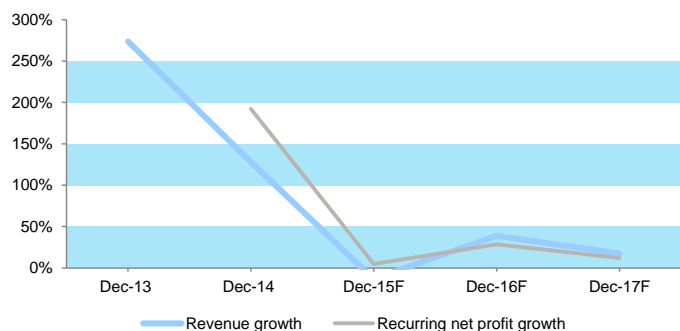
Source: Company data, RHB

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	107	10	29	24	58
Inventories	1	1	1	1	1
Accounts receivable	46	80	105	113	93
Other current assets	72	251	349	433	480
Total current assets	226	342	484	571	632
Tangible fixed assets	117	21	114	139	164
Intangible assets	-	-	1	29	29
Total other assets	8	-	-	3	3
Total non-current assets	125	21	114	171	196
Total assets	351	363	599	741	827
Short-term debt	40	18	51	75	76
Accounts payable	61	90	91	98	89
Other current liabilities	161	111	141	141	141
Total current liabilities	262	219	284	314	306
Total long-term debt	-	18	51	61	50
Other liabilities	-	3	22	22	22
Total non-current liabilities	-	21	74	83	72
Total liabilities	262	240	358	398	379
Share capital	51	156	173	187	187
Retained earnings reserve	(94)	(27)	42	131	230
Other reserves	124	(6)	11	(2)	(2)
Shareholders' equity	81	122	226	315	415
Minority interests	6	1	14	28	34
Other equity	2	0	0	-	-
Total equity	89	124	241	344	449
Total liabilities & equity	351	363	599	741	827

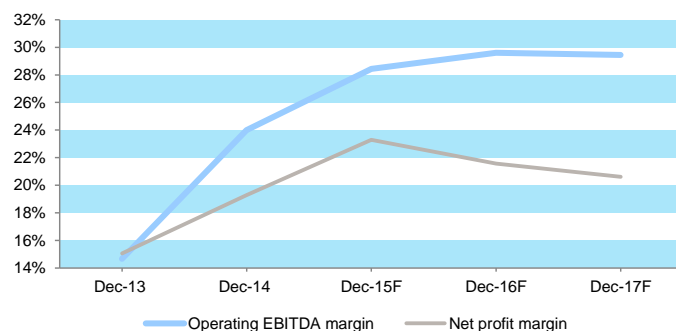
Source: Company data, RHB

Revenue growth vs Recurring net profit growth



Source: Company data, RHB

EBITDA margin vs Net profit margin



Source: Company data, RHB

Figure 1: Ho Hup's property RNAV valuation

	(MYRm)
Total projects' NPV @13%	357.5
Net profit attributable to existing unbilled sales	71.1
Shareholders' equity	226.6
Total RNAV	655.2

Source: RHB

Figure 2: Ho Hup's SOP valuation

	Net profit/ RNAV	Valuation method	P/E or discount	Value (MYRm)	Value [^] (MYRm)
Construction	10.5	P/E	9x FY16F	94.2	94.2
Property development	655.2	RNAV	40%	<u>393.1</u>	<u>393.1</u>
				487.3	487.3
ESOS proceeds @ MYR0.74 (MYRm)				4.3	4.3
Conversion of warrant A @ MYR0.60 (MYRm)				27.2	27.2
Rights issue proceeds * (MYRm)					66.6
Conversion of warrants B and C * (MYRm)					136.2
Total SOP value				518.9	721.7
Outstanding no. of shares (m)				346.8	346.8
ESOS (m)				5.8	5.8
ICPS (m)				8.0	8.0
RCPS (m)				19.7	19.7
Warrants A (m)				45.4	45.4
Rights issue (m)					85.1
Warrants B and C (m)					170.3
No. of shares - fully diluted (m)				425.7	681.1
Fully diluted target share (MYR)				1.22	1.06

Note: [^]Under the maximum scenario of the proposed rights issue plus free detachable new warrants;Note 2: ^{**}Based on an indicative issue price of MYR0.80

Source: RHB

Figure 3: Ho Hup's own development in Bukit Jalil (as of Jan 2016)



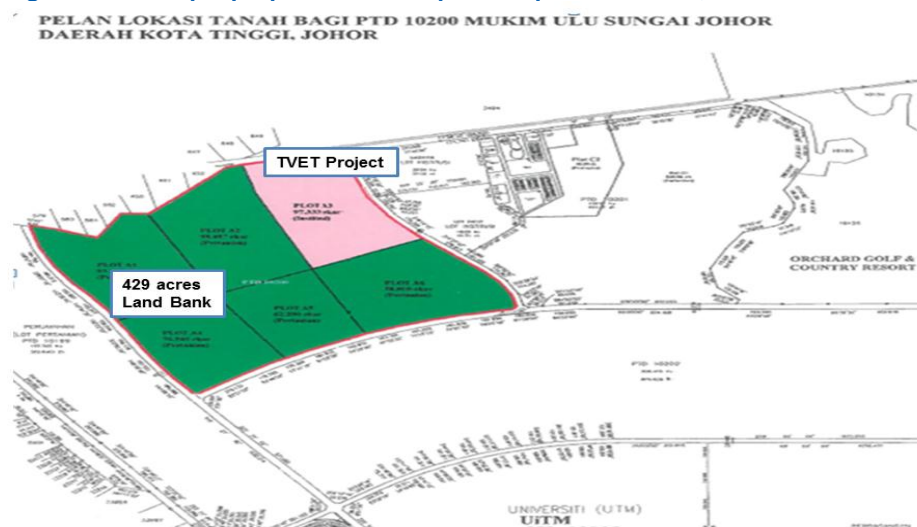
Source: Company

Figure 4: Ho Hup's joint development project with Pioneer Haven (as at Jan 2016)



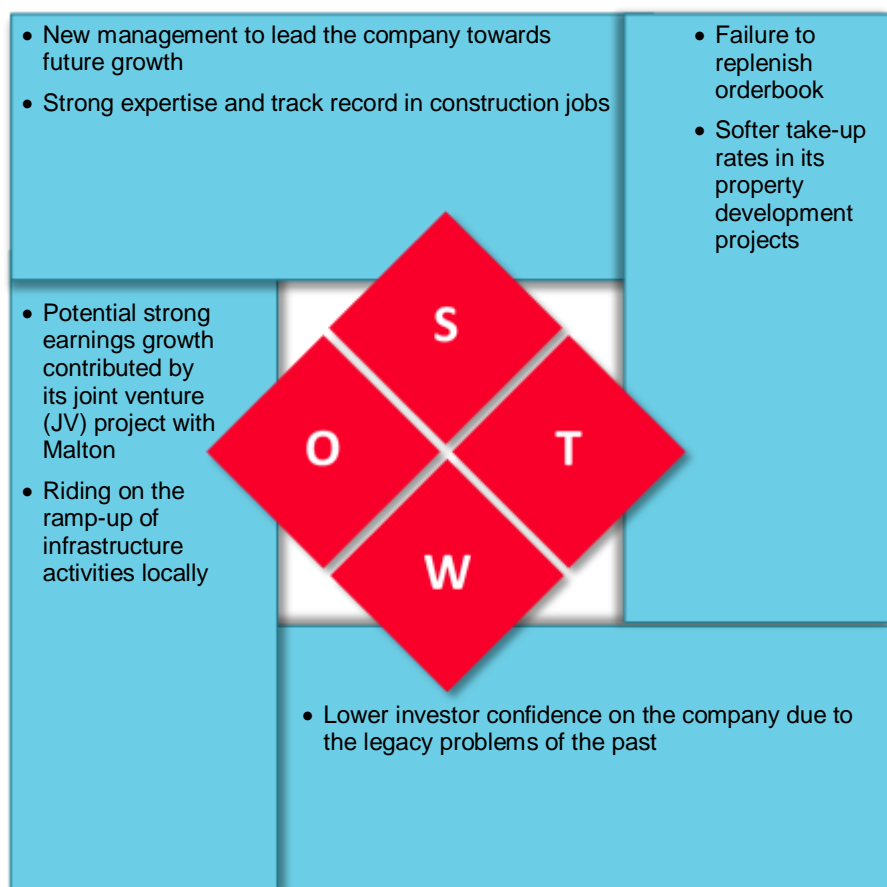
Source: Company

Figure 5: Ho Hup's proposed township development in Kulai, Johor



Source: Company

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-01-27	Buy	1.38	0.88
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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