

26 February 2016

Construction & Engineering | Construction

Ho Hup Construction

Decent Earnings Visibility

We think that Ho Hup's earnings visibility over the next 2-3 years remains decent, underpinned by the progressive billing from its ongoing Bukit Jalil property development and outstanding local construction orderbook. It has also been replenishing new landbank/rights for longer-term development purposes. Maintain BUY and unchanged SOP-derived MYR1.22 TP (49% upside). We think that the current share price level still offers attractive upside after considering the dilution from its proposed rights issue and free new warrants.

Outlook. We expect Ho Hup Construction's (Ho Hup) earnings visibility over the next 2-3 years to be supported by the progressive billings from its Bukit Jalil property development and its local outstanding construction orderbook. As at Dec 2015, the unbilled sales of Ho Hup's own development in Bukit Jalil stood at ~MYR234m. We also expect the progress billings from its joint development with Pioneer Haven SB to improve in view of the encouraging take-up rate for Phase 2B (1,120 service apartment units) that were launched in Jun 2015 and Jul 2015. Besides, we believe that the suspension of its overseas construction projects enables Ho Hup to centralise its resources in bidding for new projects locally. As at Dec 2015, the unbilled construction orderbook stood at MYR96.4m.

Earnings forecasts and risks. We fine-tune our earnings forecasts for FY16-17 by -5.2%/-3.9% respectively by assuming higher administrative costs. We also introduce our FY18 forecasts. Key risks to our estimates include weaker-than-expected take-up rates for its property development projects and the company's failure to replenish its construction orderbook.

4Q15 earnings: in line

(MYRm)	4Q15	3Q15	QoQ	4Q14	YoY	Comments
Revenue	86.1	62.8	37.0%	75.0	14.7%	Higher contribution from local construction projects and revenue recognition from its property development in Bukit Jalil
EBIT	31.6	31.6	0.0%	27.7	14.0%	
EBIT (%)	36.7%	50.3%		37.0%		
NI	19.5	17.3	12.9%	18.9	3.3%	Within expectations
NI (%)	22.7%	27.5%		25.2%		

Source: Company data, RHB

Maintain BUY with an unchanged SOP-derived TP of MYR1.22. Ho Hup has recently proposed to undertake a rights issue plus free detachable new warrants, which are targeted for completion by 2Q16. We expect our TP to be diluted to MYR1.06 under the maximum scenario. Even then, the fully-diluted TP offers a potential 29% upside at the current share price level, which we think is attractive. Maintain BUY.

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (MYRm)	341	299	418	487	541
Reported net profit (MYRm)	65.8	71.1	84.1	95.6	91.7
Recurring net profit (MYRm)	65.8	71.1	84.1	95.6	91.7
Recurring net profit growth (%)	192.2	8.2	18.3	13.7	(4.2)
Recurring EPS (MYR)	0.21	0.21	0.22	0.26	0.24
Recurring P/E (x)	3.88	4.00	3.65	3.21	3.35
P/B (x)	2.09	1.24	0.98	0.75	0.61
P/CF (x)	na	na	na	5.12	5.85
EV/EBITDA (x)	3.45	4.36	4.42	3.54	3.42
Return on average equity (%)	64.7	40.5	31.0	26.5	20.2
Net debt to equity (%)	20.8	40.6	53.1	33.5	22.5
Our vs consensus EPS (adjusted) (%)			(10.1)	0.0	0.0

Source: Company data, RHB

Buy (Maintained)

Target Price:	MYR1.22
Price:	MYR0.82
Market Cap:	USD67.3m
Bloomberg Ticker:	HO MK

Share Data

Avg Daily Turnover (MYR/USD)	0.60m/0.14m
52-wk Price low/high (MYR)	0.78 - 1.53
Free Float (%)	16
Shares outstanding (m)	347
Estimated Return	49%

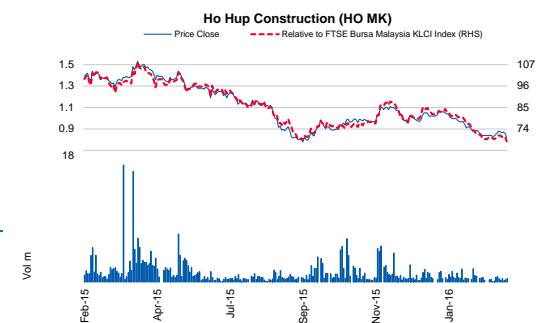
Shareholders (%)

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

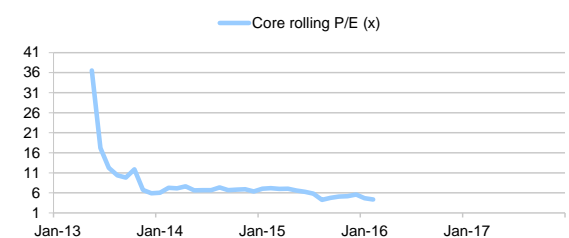
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.7)	(10.9)	(20.4)	0.6	(41.0)
Relative	(20.7)	(12.9)	(18.8)	(5.4)	(32.3)

Source: Bloomberg



Source: Bloomberg



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Financial Exhibits

Profit & Loss (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	341	299	418	487	541
Cost of sales	(241)	(189)	(283)	(329)	(381)
Gross profit	100	110	136	157	160
Gen & admin expenses	(8)	(11)	(13)	(14)	(15)
Selling expenses	(14)	(12)	(13)	(13)	(15)
Other operating costs	3	3	4	5	5
Operating profit	81	89	115	135	135
EBITDA	82	91	117	137	137
Depreciation of fixed assets	(1)	(2)	(2)	(2)	(2)
Operating profit	81	89	115	135	135
Interest expense	(1)	(2)	(3)	(3)	(3)
Pre-tax profit	80	87	111	132	133
Taxation	(13)	(16)	(27)	(32)	(32)
Minority interests	(1)	1	(0)	(5)	(9)
Reported net profit	66	71	84	96	92
Recurring net profit	66	71	84	96	92

Source: Company data, RHB

Key Ratios	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	128.3	(12.5)	40.1	16.5	11.1
Operating profit growth (%)	278.0	10.3	28.8	18.1	(0.1)
Recurring net profit growth (%)	192.2	8.2	18.3	13.7	(4.2)
Recurrent EPS growth (%)	(4.3)	(2.9)	9.6	13.7	(4.2)
Gross margin (%)	29.3	36.7	32.4	32.3	29.5
Operating EBITDA margin (%)	24.0	30.4	27.9	28.2	25.4
Operating margin (%)	23.7	29.8	27.4	27.8	25.0
Recurring net profit margin (%)	19.3	23.8	20.1	19.6	16.9
Return on average assets (%)	18.4	15.6	13.3	12.9	11.1
Return on average equity (%)	64.7	40.5	31.0	26.5	20.2
Net debt to equity (%)	20.8	40.6	53.1	33.5	22.5
Interest cover (x)	141	41	34	47	50
Capex/Free cash flow (%)	(7.1)	(0.0)	(119.3)	44.8	51.1
BVPS (MYR)	0.39	0.66	0.84	1.09	1.34
Free cash flow per share (MYR)	(0.19)	(0.18)	(0.22)	0.09	0.07

Source: Company data, RHB

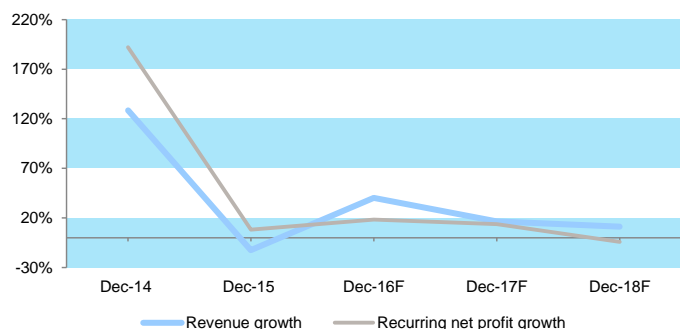
Cash flow (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Operating profit	81	89	115	135	135
Depreciation & amortisation	1	2	2	2	2
Change in working capital	(117)	(146)	(124)	(43)	(50)
Other operating cash flow	(21)	(3)	-	-	-
Operating cash flow	(56)	(58)	(7)	95	87
Interest paid	(1)	(3)	(3)	(3)	(3)
Tax paid	(0)	(1)	(27)	(32)	(32)
Cash flow from operations	(56)	(62)	(38)	60	52
Capex	(4)	(0)	(45)	(27)	(27)
Other investing cash flow	(36)	(29)	-	-	-
Cash flow from investing activities	(40)	(29)	(45)	(27)	(27)
Proceeds from issue of shares	3	35	-	-	-
Increase in debt	(22)	43	33	-	(10)
Other financing cash flow	18	29	30	(30)	-
Cash flow from financing activities	(1)	108	63	(30)	(10)
Cash at beginning of period	107	10	27	8	11
Total cash generated	(97)	17	(19)	3	16
Forex effects	0	0	-	-	-
Implied cash at end of period	10	27	8	11	27

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	10	27	8	11	27
Inventories	1	1	1	1	1
Accounts receivable	80	99	115	93	104
Other current assets	251	306	415	469	523
Total current assets	342	432	539	574	655
Tangible fixed assets	21	118	142	167	192
Intangible assets	-	0	29	29	29
Total other assets	-	-	3	3	3
Total non-current assets	21	118	174	199	224
Total assets	363	550	713	773	878
Short-term debt	18	66	113	95	89
Accounts payable	90	99	101	90	104
Other current liabilities	111	63	63	63	63
Total current liabilities	219	227	277	248	256
Total long-term debt	18	60	76	64	60
Other liabilities	3	21	21	21	21
Total non-current liabilities	21	81	96	84	80
Total liabilities	240	308	373	332	336
Share capital	156	173	187	187	187
Retained earnings reserve	(27)	44	128	224	315
Other reserves	(6)	12	(2)	(2)	(2)
Shareholders' equity	122	229	313	409	501
Minority interests	1	13	27	32	41
Other equity	0	0	-	-	-
Total equity	124	242	340	441	542
Total liabilities & equity	363	550	713	773	878

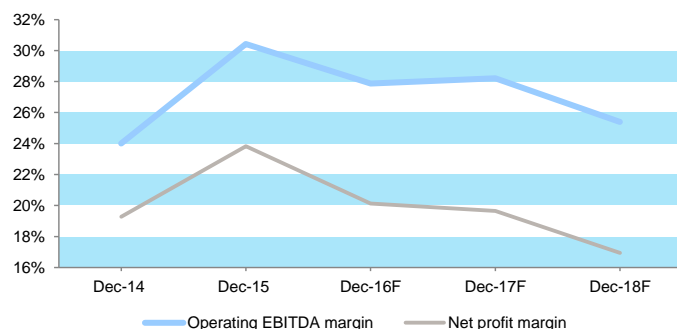
Source: Company data, RHB

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 FY15 results review

FYE Dec (MYRm)	4Q14	3Q15	4Q15	QoQ (%)	YoY (%)	YTD FY15	YTD FY14	YoY (%)	Comments
Revenue	75.0	62.8	86.1	37.0%	14.7%	298.5	341.0	-12.5%	The YoY decrease was mainly due to revenue recognition from projects in Iraq that have been suspended due to the socio-political uncertainties there
EBITDA	28.7	19.1	32.2	68.7%	12.1%	91.1	81.8	11.4%	
<i>EBITDA Margin (%)</i>	38%	30%	37%	NA	NA	31%	24%	NA	
Depreciation	-0.9	-0.5	-0.5	1.9%	-49.3%	-1.8	-1.2	54.4%	
EBIT	27.7	18.5	31.6	70.7%	14.0%	89.0	80.3	10.9%	
<i>EBIT Margin (%)</i>	37%	29%	37%	NA	NA	30%	24%	NA	
Interest expense	-0.2	-0.7	-1.0	50.1%	409.2%	-2.5	-0.6	341.6%	
Interest income	0.0	0.1	0.0	-17.5%	NA	0.0	0.0	NA	
Associates	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
EI/Others	0.0	0.0	0.0	NA	NA	0.0	0.0	NA	
Pretax profit	27.6	17.9	30.7	71.2%	11.3%	86.8	80.1	8.4%	Significant QoQ increase were mainly due to gross profit recognition from the development of Tower C and the joint development with Pioneer Haven
<i>Pretax Margin (%)</i>	37%	29%	36%	NA	NA	29%	23%	NA	
Tax	-7.2	-0.9	-11.5	>100%	59.8%	-16.4	-12.9	27.1%	
<i>Effective tax rate (%)</i>	26%	5%	38%	NA	NA	19%	16%	NA	
Minority Interest	1.4	-0.3	-0.4	NA	NA	-0.7	1.4	-151.5%	
Net Profit	18.9	17.3	19.5	12.9%	3.3%	71.1	65.8	8.2%	
Core Profit	18.9	17.3	19.5	12.9%	3.3%	71.1	65.8	8.2%	Within expectations, accounting for 103% of our full-year estimate
<i>Core net margin (%)</i>	25%	28%	23%	NA	NA	23.8%	19.3%	NA	

Source: Company data, RHB

Figure 2: Ho Hup's property RNAV valuation

	(MYRm)
Total projects' NPV @13%	357.5
Net profit attributable to existing unbilled sales	71.1
Shareholders' equity	229.2
Total RNAV	655.2

Source: RHB

Figure 3: Ho Hup's SOP valuation

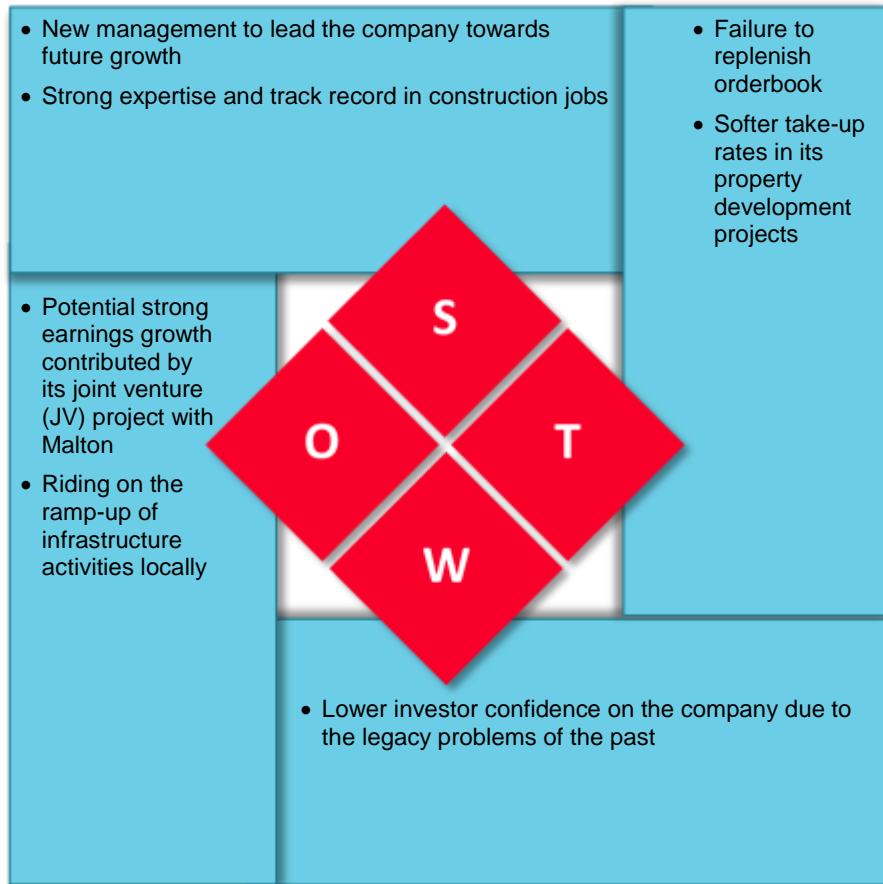
	Net profit/ RNAV	Valuation method	P/E or discount	Value (MYRm)	Value [^] (MYRm)
Construction	10.5	P/E	9x FY16F	94.2	94.2
Property development	657.8	RNAV	40%	<u>394.7</u>	<u>394.7</u>
				488.9	488.9
ESOS proceeds @ MYR0.74 (MYRm)				4.3	4.3
Conversion of warrant A @ MYR0.60 (MYRm)				27.2	27.2
Rights issue proceeds * (MYRm)					66.6
Conversion of warrants B and C * (MYRm)					136.2
Total SOP value				520.4	723.3
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

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-02-17	Buy	1.22	0.86
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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Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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