

## MONEY TALK

### HO HUP CONSTRUCTION COMPANY (HO MK)

#### Finally... The Unveiling Of Its Crown Jewel

Following the completion of its regularisation plan, Ho Hup is on track for the upliftment of its PN17 status in the next two quarters, after posting five consecutive quarters of profit. The company's turnaround plans had been well-executed with 9M13 PATAMI improving to RM10m from a net loss of RM12m in 9M12. 2014 earnings could further surprise on the upside as development of its crown jewel in Bukit Jalil materialises. Based on earnings projection from the submitted regularisation plan, Ho Hup is trading at a low valuation of 4.8x 2014F PE, given management expectations of a five-fold leap in 2014 earnings. We opine that there could be further upside to the earnings projection, given the potential revision of its projects' GDV as well as possible JV in new development projects, in the longer term.

#### INVESTMENT HIGHLIGHTS

- A step closer to exiting PN17 status.** In our recent meeting with the company, management revealed that the company is seeking an early upliftment of its PN17 status. To recap, on 30 Dec 13, Ho Hup listed 102m irredeemable convertible preference shares (ICPS) with 51m warrants, and 134m redeemable convertible preference shares (RCPS) to settle debts owing to unsecured creditors. We opine that the chances for Ho Hup to exit from PN17 status in the next two quarters is high, given that the company has already recorded five consecutive quarters of profit. Post restructuring, Ho Hup's solid financial standing (gearing ratio improved from non-meaningful -0.21x for 2012 to 2013F's 0.71x and 2014F's 0.03x, respectively) would allow the company to participate in the development of its crown jewel land in Bukit Jalil. Earnings arising from this development could sustain the company to up to year 2022.

#### HO HUP'S SOTP

Segment	Earnings (RMm)	Method	Value (RMm)
Property		DCF	859
Construction	6	8x PE	48
Concrete	2.5	8x PE	20
<b>Sub-total</b>			<b>927</b>
Net cash			12.0
Proceeds from warrants			31.0
Enlarged share base including ICPS, RCPS and warrants (m)			391.6
<b>SOTP per share (RM)</b>			<b>2.48</b>

Source: UOB Kay Hian

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2009	2010	2011	2012	9M13
Net turnover	80.1	65.1	30.0	40.0	101.5
EBITDA	-24.4	-8.7	-0.1	-8.8	12.3
Operating profit	-29.4	-11.1	-1.6	-9.4	11.9
Net profit (adj.)	-31.7	-7.3	-10.0	-13.6	9.6
EPS (sen)*	-33.8	-13.3	-10.1	-11.9	9.4
PE (x)	n.m.	n.m.	n.m.	n.m.	11.1^
P/B (x)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	15.7^
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	-43.1	-20.9	-34.5	-30.3	9.4
Net debt/(cash) to equity (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Interest cover (x)	n.m.	n.m.	n.m.	n.m.	16.5
ROE (%)	n.m.	n.m.	n.m.	n.m.	n.m.

Note: \* Based on 102m shares

^ Calculated based on annualized earnings

- Not meaningful (deficit in shareholders fund) as the restructuring exercise was still on going as at 9M13

Source: Ho Hup, Bloomberg, UOB Kay Hian

## NOT RATED

Share Price	RM1.39
Target Price	n.a.
Upside	n.a.

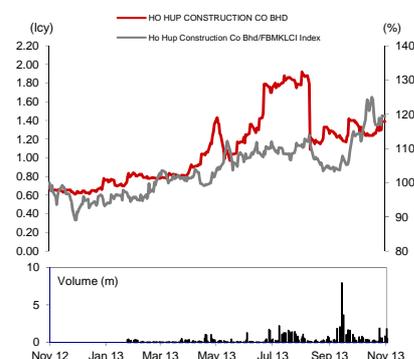
#### COMPANY DESCRIPTION

Ho Hup provides construction & civil engineering services and it has emerged as a property developer over the past two years.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	HO MK
Shares issued (m):	179.5
Market cap (RMm):	249.6
Market cap (US\$m):	75.4
3-mth avg daily t'over (US\$m):	0.7

#### PRICE CHART



Source: Bloomberg

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- Interests aligned for development of the crown jewel 60-acre Bukit Jalil land.** Recall that from 2010 to early 2012, Ho Hup was embroiled in high profile litigation over its 60-acre land at Bukit Jalil. This litigation revolves around the joint development agreement between Malton's wholly-owned subsidiary Pioneer Heaven Sdn Bhd (PHSD) and Ho Hup's subsidiary Bukit Jalil Development Sdn Bhd (BJD). Nevertheless, the dispute was resolved when both parties, Ho Hup and Malton, achieved an amicable agreement over the 60-acre land in early 2012. Under the new terms of agreement, BJD would be allowed to develop 10 acres of the land (Parcel A and Parcel E) on its own and be entitled to 18% of the GDV in the development of the remaining 50-acre land to be developed by PHSD. Currently, the master development plan of the land suggests an estimated GDV of approximately RM1b and RM4b for the 10-acre and 50-acre plot respectively.
- Parcel A: Shop office and SOVO are well received.** The 10-acre land to be solely developed by Ho Hup would be split into two parcels, namely, Parcel A (5.9 acres) and Parcel E (4.1 acres). Parcel A has been earmarked for development of shop offices and Smart Office Versatile Offices (SOVO) with an estimated GDV of RM392m. Management said that the Aurora shop offices, which were launched in Sep 12, have been fully sold out. Meanwhile, its SOVO had recorded an encouraging take-up rate of 61% since it was launched in Sep 13. This development will span three years and is expected to be completed in 2016. We understand that the outstanding GDV for this project is about RM345m. With its shop offices fully sold and assuming 80% take-up rate for its SOVO units, we estimate Parcel A alone will generate RM106m over the next three years, based on an estimated 33% net margin. We opine that the high margin would be achievable, given that the land was acquired at a low of only RM55psf back in 1995.
- Further GDV upside for Parcel A.** While it is currently not in the master layout plan, we understand that Ho Hup will revise its master plan for Parcel A to include two additional 15-floor office towers on top of shop offices, which would house Ho Hup's head office upon its completion. The company intends to sell some of the office units and the rest will be retained for rental income. The office towers are expected to have a combined GDV of RM100m-150m, although the project timeline is still unclear at this juncture.

DEVELOPMENT DETAILS ON PARCEL A

Development	Aurora shop office ^	18-storey SOVO*
GDV (RMm)	252	118
Selling price (RM000)	2,743- 8,500	416-921
Price (RMpsf)	666-776	682-738
Build up (sf)	4,118 – 10,948	602-1,305

Note: ^ 3-, 4- and 5-storey shop offices (total 64 units)  
: \* 209 units in total

Source: Ho Hup

PROFIT FORECAST SUBMITTED BY HO HUP TO BURSA ON REGULARIZATION PLAN

RMm	2012	9M13	2013F	2014F
Revenue	40.0	101.5	203.2	807.9
Gross profit	-1.7	13.2	38.3	159.9
EBIT	-7.6	11.9	25.7	136.1
PBT	-16.7	11.2	23.9	135.0
PATAMI	-12.1	9.6	20.1	113.9

Noted: Based on the enlarged share base of 391.6m shares, EPS for FY 13F and FY14F is 5.1 sen and 29 sen, respectively

Source: Bursa, Ho Hup

HO HUP'S INITIAL BUKIT JALIL MASTERPLAN LAYOUT



Source: Ho Hup

- Parcel E: Competitive pricing and mall attraction to support sales of residential units.** The proposed development of Parcel E entails the construction of three blocks of high-rise residential condominiums with an estimated GDV of RM660m or an average selling price of RM550psf. The first phase of the project is expected to be launched in 2Q14 and completion is expected in 2017. We expect a good take-up rate for this project, given its attractive pricing as compared to surrounding residential property projects, ie Exsim's Twin Arkz and Berjaya Group's KM One East, which is priced at RM700-850psf. Assuming a 30% net margin and 80% take-up rate, the project will contribute RM158m to the company's bottom line over 2014-17. In our view, both Parcel A and Parcel E should offer long-term capital appreciation as these developments are well-poised to benefit from the spillover effect from the upcoming development of Pavilion II.
- 18% sharing on potential GDV of more than RM4b from development of crown jewel.** The joint development by Ho Hup and Malton of the 50-acre land (comprising Parcel B, C, D and F) will consist of the Pavilion 2 shopping mall, retail shops and residential units. Meanwhile, with 2m sf of net lettable area (NLA), Pavilion 2's size would eclipse that of Pavilion KL's (1.3m sf NLA) and bring it close to the combined 2.6m sf NLA of Mid Valley and the Gardens Mall. Under the joint development agreement, Ho Hup will be entitled to 18% of the RM2.1b GDV or a minimum of RM220m from Malton. However, we understand that DBKL had recently approved a revised master plan for the JV land, with a revised GDV of more than RM4.0b. We gathered that the first soft launch of its retail shop last month had been fully booked. We estimate that Ho Hup could rake a total of RM810m over the next 8-10 years from this integrated mixed development project, based on 18% profit sharing. The sheer size of the Pavilion II development could, in our view, transform the property landscape of Bukit Jalil to a commercial hub (from a mainly residential area currently) and thus, allowing for better price appreciation for future launches.
- New business model for construction segment.** Management said that the company would be more selective in taking on overseas construction jobs, after its previous experience in Madagascar's 400km road development project. The project was terminated in Feb 06 by the government and machinery worth approximately RM40m had been written off. As such, instead of investing heavily in equipment, Ho Hup has adopted a new approach for overseas jobs by forming JV with strong local infrastructure companies and providing only engineering and project management services. While the net margin is thin at 4-5%, we reckon that this approach would minimise the political risk arising from Africa and the Middle East region.
- ... with more focus given to Malaysia.** Currently, Ho Hup's orderbook stands at RM407m with 79% of it originating from Iraq (see side bar table). We understand that Ho Hup is close to signing another RM180m worth of infrastructure work in Iraq, bringing its total orderbook to about RM590m. Moving forward, management would focus more on local jobs, particularly local government jobs. The company has a bid book of RM6b, with about 33% comprising local tenders, including the RAPID and independent power producer (IPP) earth work project. We believe that an upliftment of the PN17 status would increase the company's chances of securing more local tenders. With its huge tenderbook, a conservative 5% success rate would translate to RM300m orderbook replenishment.

#### HO HUP'S CONSTRUCTION ORDERBOOK

Contract	Contract value (RMm)	Client
Water treatment plant project	252	Ministry of Municipalities & Public Work, Iraq
Road project	61	Ministry of Municipalities & Public Work, Iraq
Integrated army complex project	87	Johor Corp, Malaysia

Source: Ho Hup

#### SALIENT TERMS OF HO HUP'S ICPS AND RCPS

ICPS	
Issue size:	102m
Listing date:	30 Dec 13
Par value:	RM0.01 / ICPS
Issue price:	RM0.50 / ICPS
Tenure:	3 years
Dividends:	Cumulative dividend rate of 2.5 sen/ICPS p.a.
Conversion ratio:	1:1, without additional payment consideration
Conversion period:	Anytime from the date of issue
RCPS	
Issue size:	137m
Listing date:	30 Dec 13
Par value:	RM0.01 / RCPS
Issue price:	RM0.50 / RCPS
Tenure:	3 years
Dividends:	Cumulative dividend rate of 1.5 sen/RCPS p.a.
Conversion ratio:	1:1, without additional payment consideration
Conversion period:	Anytime from the date of issue
Warrants	
Issue size:	51m
Listing date:	30 Dec 13
Exercise price:	RM0.60
Tenure:	5 years
Conversion ratio:	1:1
Exercise period:	Anytime during the tenure

Source: Bursa

- **Future plans after Bukit Jalil development.** Currently, the 60-acre Bukit Jalil land is Ho Hup's last sizeable property development landbank. Nevertheless, we understand that Ho Hup is actively looking for JV partners with huge landbank in prime areas for future property development. As such, we do not discount the possibility that Ho Hup would tie up with government-linked agencies to develop their prized land banks. This kind of JV has been witnessed in other boutique property developers, such as Crest Builder, which had formed JV partnerships with Prasarana and Malaysia Rubber Board to develop their land bank in prime areas.
- **Who are the major shareholders?** Formis Resources, a listed software company, is Ho Hup's largest shareholder with a 15% stake, followed by Datuk Low Tuck Choy's family investment vehicle, which owns a 13% stake. Ho Hup's third largest shareholder is listed Insas's subsidiary, which owns about 4% interest. Assuming full conversion of ICPS, RCPS and warrants, Formis Resources, Low family and Insas are estimated to own a 16%, 19% and 6% stake in Ho Hup respectively.

## Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	12/11	12/12	12/13E	12/14E
2/14/2014	100%	0%	0%	P/E	-	-	31.6	5.1
Target Price			1.78	EV/EBIT	-	-	-	-
Upside to reference price			28.0%	EV/EBITDA	-	-	-	-
				P/S	-	-	-	-
				P/B	-	-	-	-
				Div Yield (%)	-	-	-	-
Income Statement	12/11	12/12	12/13E	12/14E	Profitability Ratios %			
Revenue	30	40	238	666	Gross Margin	3.5	-6.1	-
Gross Income	1	(2)	-	-	EBITDA Margin	-0.4	-22.1	-
Operating Income	(2)	(9)	-	-	Operating Margin	-5.5	-23.6	-
Pretax Income	(11)	(17)	-	-	Profit Margin	-34.5	-30.3	7.2
Net Income Adjusted*	(10)	(14)	17	106	Return on Assets	-5.6	-7.1	-
EPS Adjusted	(0.10)	(0.12)	0.04	0.27	Return on Equity	-	-	-
Dividends Per Share	0.00	0.00	-	-				
Payout Ratio (%)	-	-	-	-				
EBITDA	(0)	(9)	-	-				
Peer Comparison	Ticker	Price @ 14 Feb 14	Market Cap (RMm)	----PE----		----P/B----		Yield FY14F
				FY13F (x)	FY14F (x)	FY13 (x)	FY14F (x)	(%)
Hua Yang	HYB MK	1.85	7,052	6.7	6.0	1.5	1.3	5.7
Tambun Indah Land	TILB MK	1.64	1,788	10.1	7.1	n.a.	n.a.	5.1
Paramount Corp	PAR MK	1.52	2,433	8.9	8.0	n.a.	n.a.	5.9
Mk Land Holdings	MKL MK	0.44	438	13.2	7.8	0.5	0.4	n.a.
Matrix Concepts Holdings	MCH MK	3.81	1,148	7.7	7.1	2.1	1.8	6.8
Average				9.3	7.2	1.4	1.2	5.9
Ho Hup Construction Co	HO MK	1.39	2,076.6	31.6	5.1	4.8	2.5	n.a.

Source: Bloomberg

## Technical View



Source: Bursa Station Professional

## Ho Hup Construction Co (HO MK)

Technical BUY with +23.7% potential return

Last price : RM1.39

Target Price: RM1.45, RM1.72

Support : RM1.29

Stop-loss: RM1.27

BUY with a target price of RM1.72 with a stop loss placed below RM1.27. Given our earlier BUY call on 11 Feb 14, HO's share price has made a "1,2,3 formation" which led to a breakout last Friday, signaling further upward momentum ahead. We note that the breakout was genuine given the higher trading volume of 7.7m shares recorded (vs. 20-day average of 2.5m). Moving forward, we expect another up-leg given the sharp rise in positive momentum and the bullish crossover of the MACD. We revise our medium-term target to the 1.61x Fibonacci retracement level of RM1.72 as we expect the share price to continue its uptrend above the rising trendline.

## Disclosures

As of 17 February 2014, the analyst and his/her immediate family do not hold positions in the respective securities recommended in this report.

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