

Hong Lai Huat Group Limited

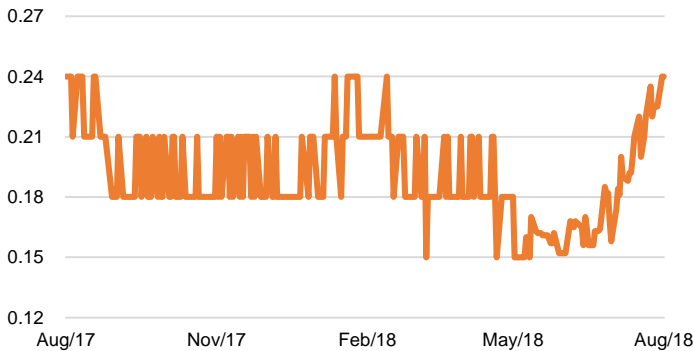
Date: 8 August 2018

BUY
(Maintained)

Target Price: S\$0.51
(+117%)

HLHG SP

Price: S\$0.235 (as at 7 August 2018)



Share price	1M	3M	6M	1Y
HLH Group Limited	38.2	0.0	5.9	0.0
Catalist Index	-5.3	-9.6	-14.7	-16.4

Market capitalisation	S\$52.1 million
Current Price	S\$0.235
Shares outstanding	221.9million
Free Float	60.5%
Major shareholder	Ong Bee Huat (15.1%)
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

Analyst

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Key Financials

Year ended December (S\$m)	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E	FY2020E
Revenue	5.7	10.3	12.6	52.7	105.1	29.9
% Growth	N/A	80.7%	21.8%	318.5%	99.3%	-71.6%
Gross Profit	4.5	7.8	6.4	31.1	59.3	19.6
Gross Profit margin (%)	77.8%	75.9%	50.5%	58.9%	56.4%	65.8%
Profit before tax	7.4	7.0	4.9	18.8	48.5	10.6
Profit after tax	5.5	6.3	2.1	15.0	38.8	8.5
% Growth	516.7%	14.85%	-67.48%	633.02%	158.09%	-78.13%
Profit after tax margin (%)	95.9%	60.9%	16.3%	28.5%	36.9%	28.4%
Basic EPS (S\$ cents)	2.47	2.84	0.92	6.77	17.47	3.82
Diluted EPS (S\$ cents)	2.40	2.76	0.90	6.57	16.97	3.71
P/E (x)	6.59	5.74	17.65	2.41	0.93	4.26
Net Debt/Equity (%)	5.8%	Net cash	2.5%	Net cash	Net cash	Net cash

N/A: Not applicable

1H18 results ahead, strong earning recovery

Strong property sales at D'Seaview saw revenue rose fourfold to S\$28.4 million. Hong Lai Huat Group Limited ("HLH", or the "Group") reported 1H18 results that saw revenue rose fourfold to S\$28.4 million (53.9% of our total FY18E) for the period under review, up from S\$7.2 million a year ago on the back of stronger property sales at the Group's signature D'Seaview project development in Sihanoukville, Cambodia. The property segment accounted for 87% of the Group's total revenue in 1H18.

D'Seaview has achieved good take-up (>70% of the commercial and residential units sold) since HLH extended its launch to Singapore buyers in 2017. As an early mover in this type of development in the city, it is a price leader which translates into good margins. We understand that land prices in Sihanoukville have skyrocketed since 2015 when the land was acquired, as international developers snapped up landbank over the last 3 years. HLH has another parcel of land of 22,064 sq m (more than 2x the size of D'Seaview).

Profit attributable to owners of the company rose 18% with net gearing moving towards net cash. HLH saw distribution and selling expenses rose to S\$2.2 million from a year ago on the back of higher estate agencies commissions paid out and higher expenditure on sales and marketing activities. The result is that HLH saw profit attributable to owners of the company rise by 18% to S\$6.5 million. The Group saw their cash and cash equivalents increase nearly threefold with cash and bank balances rising from S\$2.0 million to S\$6.0 million, bringing the Group to a net cash position.

On track to completion of commercial and residential segment. The Group continues to expect positive response in sales on the D'Seaview project from both local and foreign buyers. The Group is on track to meeting the completion of the commercial segment by September 2018 (the Group celebrated its roof topping-up ceremony for the development on 27 June 2018), and the completion of the residential segment which is targeted by 1st half of 2019.

We maintain BUY. We are forecasting HLH to post a strong recovery in 2018 and 2019 as it recognises higher sales from D'Seaview. The stock is trading at an attractive 0.9x FY19 P/E and 0.28x FY17 P/BV versus sector average of 0.9x. We value HLH at S\$0.51 per share after applying a 40% discount to its RNAV. This translates to an implied FY18 P/BV of 0.8x. We have not factored in any contribution from potential property earnings in Singapore, and cooperation with a third party to expand its cassava business in Cambodia. HLH's share price has jumped 44% since our initiation of coverage on 29 June 2018. We maintain BUY.

Key risks: Slow response for D'Seaview project

Company background

Hong Lai Huat was founded by Dato Dr Johnny Ong Bee Huat in 1988 and started as a construction company, named Hong Lai Huat Construction. In 1997, the group was graded by Building and Construction Authority (“**BCA**”) as G8 building contractor after demonstrating a good track record of construction of HDB housing projects, shopping malls, community centres and industrial projects. The G8 grading allows the group to tender for public projects of unlimited values.

In 2000, the Group was listed on the mainboard of SGX under the name of “Hong Lai Huat Group Limited”. The Group launched its maiden project, D’Ecosia at Still Road in 2001 and took pride that the project was completely sold within a year after completion in 2003. Having tasted the success of D’Ecosia, the company went on to develop several projects in Singapore, namely D’Fresco, D’Almira, D’Lithium, D’Centennial, D’Kranji Farm Resort, D’Castilia from year 2003 to 2013.

In 2015, the Group expanded its property development arm to Cambodia after 2 years of careful study.

In Cambodia, it also owns one of the largest cassava plantations in Cambodia with a combined land size of approximately 10,000 hectares and a maximum annual production capacity of 225,500 ton of fresh cassava. The starch factory, which is located within the farm, has a maximum production capacity of 36,000 ton of native tapioca starch per annum.

The group has two core businesses:

Property development

With a vast experience in the property and real estate business in Singapore, it is currently developing its first freehold mixed development in Cambodia known as D’Seaview, a project with 737 residential units and 67 commercial units comprises office buildings, commercial retail shops and a hotel.

Agriculture

The Group cultivates fresh cassava for the production of native tapioca starch for local and the export market. HLH has a 70-year concessional rights to the agriculture land with total land area of approximately 10,000 hectares, located at Aoral District, Kampong Speu Province, Cambodia (“**Aoral farm**”).

Group Structure



Source: Company data, SAC Advisors

Recommendation

HLH is trading at attractive FY17 P/BV of 0.28x and forward P/E of 0.9x, based on our earnings forecast for 2019. We value HLH at S\$0.51 per share after applying a 40% discount to its RNAV to factor in the lack of project in the pipeline although D'Seaview is expected to underpin the group's earnings in the next 2-3 years. The target price of S\$0.51 translates into a FY18 P/BV of 0.8x versus sector average of 0.9x. With a substantial potential share price upside of more than 200%, we initiate HLH with a BUY recommendation.

We believe the market is currently undervaluing the stock. We have not factored in any contribution from potential property launch in Singapore, potential divestment or development of second landbank in Cambodia (GDV could be doubled that of the first project given the 2x land size), and a possible cooperation with a third party to expand its cassava business.

RNAV breakdown	
Property development surplus (S\$ m)	59.97
NAV - as at end-Dec 2017 (S\$ m)	127.67
RNAV (S\$ m)	187.64
Shares outstanding (m)	221.93
RNAV per share (S\$)	0.85
RNAV discount (%)	40.0%
Discounted RNAV per share (S\$)	0.51
Current share price	0.163
Upside	211.2%
Implied P/BV (x) - FY18	0.79

Source: SAC Advisors

Income Statement (\$\$ m)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Revenue	10.3	12.6	52.7	105.1	29.9
Cost of goods sold	-2.5	-6.2	-21.7	-45.8	-10.2
Gross Profit	7.8	6.4	31.1	59.3	19.6
Other income	0.5	1.8	0.5	0.5	0.5
Administrative expenses	-4.5	-6.2	-6.0	-6.0	-4.5
Distribution and selling expenses	-1.5	-1.6	-1.7	-1.7	-1.5
Other operating expenses	-0.1	0.0	0.0	0.0	0.0
Depreciation and amortization	-1.7	-3.5	-4.8	-4.9	-4.9
Finance costs	-0.7	-0.5	-0.5	-0.5	-0.5
Interest income	0.0	0.0	0.3	1.8	1.9
JV/associate income	0.0	0.0	0.0	0.0	0.0
Exceptional item	7.0	8.6	0.0	0.0	0.0
Profit before tax	7.0	4.9	18.8	48.5	10.6
Income tax	-0.7	-2.9	-3.8	-9.7	-2.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Profit for the year/period	6.3	2.1	15.0	38.8	8.5

Balance Sheet (\$\$ m)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
PPE	35.6	94.9	91.1	87.2	83.3
Investment properties	89.4	37.9	37.9	37.9	37.9
Others	0.0	0.1	0.1	0.1	0.1
Total Non-Current Assets	125.1	132.8	129.0	125.1	121.2
Development properties	18.3	15.1	24.8	28.9	0.0
Inventories	0.7	0.5	0.5	0.5	0.5
Trade receivables	7.8	0.6	2.1	4.2	1.2
Cash and short term deposits	6.7	2.0	16.4	74.0	85.8
Others	1.2	11.6	14.6	15.1	15.6
Total current assets	34.8	29.8	58.4	122.7	103.1
Trade payables	1.5	7.3	10.8	22.9	5.1
Loans and borrowings	1.7	3.3	3.3	3.3	3.3
Others	5.8	2.9	9.1	18.8	4.5
Total Current Liabilities	9.0	13.5	23.2	45.0	12.9
Deferred tax liabilities	14.9	16.4	16.4	16.4	16.4
Loans and borrowings	4.5	1.9	1.9	1.9	1.9
Convertible bonds	0.0	2.0	2.0	2.0	2.0
Others	0.7	1.1	1.1	1.1	1.1
Total Non-current Liabilities	20.1	21.5	21.5	21.5	21.5
Shareholder's Equity					
Share capital	94.6	94.6	94.6	94.6	94.6
Reserves	48.0	42.8	42.8	42.8	42.8
Accumulated (losses) profits	-11.8	-9.8	5.3	44.0	52.5
Total equity attributable to shareholders of the company	130.8	127.7	142.7	181.5	190.0
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	130.8	127.7	142.7	181.5	190.0

Cash Flow Statement (\$\$ m)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profit before tax	7.0	4.9	18.8	48.5	10.6
Depreciation & amortisation	1.7	3.5	4.8	4.9	4.9
Interest income	0.0	0.0	-0.3	-1.8	-1.9
Interest expense	0.7	0.5	0.5	0.5	0.5
Change in working capital	-7.9	-6.2	-4.5	15.0	-0.6
Others	-7.8	-10.8	-4.0	-8.4	-0.7
Net Cash (used in)/ from operations	-6.3	-8.2	15.4	58.6	12.8
Purchase of PPE	-0.2	-0.3	-1.0	-1.0	-1.0
Others	0.8	2.8	0.0	0.0	0.0
Net Cash (used in)/ from investing	0.6	2.5	-1.0	-1.0	-1.0
Net change in equity	12.9	0.0	0.0	0.0	0.0
Net change in debt	-3.8	-1.7	0.0	0.0	0.0
Others	12.8	0.0	0.0	0.0	0.0
Net Cash (used in)/ from financing	9.0	-1.7	0.0	0.0	0.0

Ratios

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profitability (%)					
Operating profit margin	5.9%	-25.6%	36.1%	44.9%	30.9%
Profit before tax margin	67.5%	38.9%	35.6%	46.1%	35.5%
Profit after tax margin	60.9%	16.3%	28.5%	36.9%	28.4%
Liquidity (x)					
Current ratio	3.88	2.20	2.51	2.73	7.97
Quick ratio	1.76	1.05	1.42	2.08	7.93
Interest coverage ratio	0.90	-6.87	36.39	90.26	17.64
Net Debt to Equity	Net cash	2.5%	Net cash	Net cash	Net cash
Valuation (x)					
P/E	5.74	17.65	2.41	0.93	4.26
Core P/E	-50.67	-5.57	2.41	0.93	4.26
P/B	0.28	0.28	0.25	0.20	0.19
Returns					
Return on equity	5.3%	1.6%	11.1%	23.9%	4.6%
Return on asset	0.4%	-2.0%	10.9%	21.7%	3.9%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

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