Roxy-Pacific Holdings Limited

11 August 2021

Non-Rated

Price: S$0.420 **(as at 10 August 2021)**

BBG	ROXY SP
Market cap	S$547.7 million
Price (10 August 2021)	S$0.420
52-week range	S$0.305 – S$0.500
Target Price	Non-rated
Shares Outstanding	1,304.0 million
Free Float	21.9%
Major Shareholder	Kian Lam Investment Pte Ltd 40.0% Teo Hong Lim 11.9% Sen Lee Development 11.2%

P/BV (06/21)	1.1x
Net debt to EBITDA (12/20)	NA

Source: Company data, Bloomberg, SAC Capital

Analyst
Lim Li Jun Tracy +65 6232 3239
tlim@saccapital.com.sg

Exiting the bottom

The Group posted a 19.6% yoy increase in revenue to S$141.2m in 1HFY21, up from S$118.1m a year ago, largely with the revenue growth from the property development segment (+27.4%), which made up 89.6% of 1H revenue. This was due to higher percentage of revenue recognition from some projects. Other income included one-off S$4.1m fair value gain from investment property at NZI Centre. Overall 1HFY21 PATMI was S$5.9m, up 2.1x from S$2.8m a year ago.

As at 30 Jun, total attributable pre-sale revenue was S$564.4m (up from $552.1m in Jan). Net debt to adjusted NAV rose from 0.64x (Dec 20) to 0.70x. ANAV per share was 72.87 cents/share (Jun 21), up from 72.15 cents/share (Dec 20).

Upcoming development projects. Roxy-Pacific previously acquired two 999-year/freehold sites at Jalan Molek/Guillemard Road (100% interest) and Institution Hill (42% interest). A total of 197 units is expected, which they plan to launch for sale from 2HFY21.

Private residential property prices unwavering from its highs. The private residential property price index hit 163.5 in Q2. As at Q2, 19,384 private residential units remained unsold (Q1: 21,602, Q4 20: 24,300). We expect the current low supply in the market to continue to be a driver of property sale prices. In the face of rising million-dollar HDB flats sold, property cooling measures may be probable. If introduced for HDB flats, private residential property will become more attractive.

Expect high construction costs, delays in construction still. We expect high construction costs and delays in construction to continue, at least in the near-term. Singapore in July announced a pilot programme to bring in foreign workforce to address the manpower supply crunch issue. We see higher global vaccination rates to be catalyst to the manpower crunch easing, but the worsening situation in key manpower supply areas like Malaysia and India continue to pose as headwinds.

Key risks: High construction costs

Key Financials

FY ended 31 December	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue (S$'m)	385.4	246.8	132.9	444.0	198.4
EBIT (S$'m)	77.3	65.5	39.3	65.0	-13.6
Net profit (S$'m)	49.8	31.7	21.3	30.3	-29.5
Basic EPS (S cents)	4.17	2.42	1.63	2.33	-2.26
Dividend per share (S cents)	1.8	1.4	1	0.9	1.1
Net cash / (debt)	-507.4	-549.4	-751.3	-584.1	-576.7
Valuation					
EBIT margin (%)	20.1	26.5	29.6	14.6	-6.9
ROIC (%)	6.1	4.3	2.7	3.9	-1.3
EV/EBITDA (x)	12.6	15.4	27.9	15.2	NA
P/E (x)	11.0	17.3	25.7	18.1	NA
Dividend yield (%)	4.3	3.3	2.4	2.1	2.6

Investment Summary

Segment Revenue (S$'m)	1H21	1H20
Property Development	126.5	99.3
Hotel Ownership	10.7	15.1
Property Investment	4.0	3.7
Total	**141.2**	**118.1**

Source: Company Data, SAC Capital

1HFY21 revenue and earnings rose

The Group posted a 19.6% yoy increase in revenue to S$141.2m in 1HFY21, from S$118.1m a year ago. This was largely due to revenue growth from the property development segment (+27.4%), which covered the decrease in revenue in the hotel ownership segment (-29.2%). Property investment segment increased slightly (+8.5%).

Other income increased, including one-off S$4.1m fair value gain from investment property at NZI Centre, S$2.8m forex gain, and S$1.1m government grant. Overall 1HFY21 PATMI was S$5.9m, up 2.1x from S$2.8m a year ago. Net debt to adjusted NAV rose from 0.64x (Dec 20) to 0.70x. ANAV per share was 72.87 cents/share (Jun 21), up from 72.15 cents/share (Dec 20).

Property development

Property development, which made up 89.6% of 1H revenue, increased from S$99.3m to S$126.5m in 1HFY21, largely due to higher percentage of revenue recognition from RV Altitude, View at Kismis and 120 Grange, partially offset by absence of revenue recognition from Octavia Killara and West End Glebe which obtained TOP in FY2020.

Hotel ownership and Property investment

Hotel ownership, which made up 7.6% of 1H revenue, continues to be hit by the border control measures in the tourism industry. Their hotels comprise 1 in Singapore, 2 in Japan, 1 in Maldives and 1 under development in Thailand (expected to be ready in FY22). The current situation in each of these countries are:

1) Singapore is seeing higher visitor arrivals now compared to half a year ago, recording 10,030 arrivals in June and 14,190 in May, up around 4-5 times that of a year ago. Hotel room revenue fell to S$64.3m in June, from S$67.9m in May. Average occupancy sat at 53%, from 50% before.

In addition, Singapore has started to allow Taiwan travellers to enter without serving compulsory SHN from August 7, provided conditions, including a negative Covid test, are met. This marks the start to its travel corridor plans, expected early September, with more countries.

2) Japan had reimposed a state of emergency, with more prefectures included in their "quasi-emergency stage" for these measures.

3) As of its July 2021 update, travel restrictions are lifted in Maldives, subject to conditions, including a negative Covid test, for inbound tourists.

Property investment made up the remaining 2.8% of revenue and comprises rental income from shop units in Roxy Square and NZI Centre. Occupancy ratios as at 30 June 2021 (based on lettable area) were 82% and 100% respectively.

Investment Summary

Overview of current development projects

Property	Development Type	% Stake	Attributable total sale value S$'m	Balance attributable billings (from 1/7/2021) S$'m	% Sold (as at Jun 2021)
Singapore					
Harbour View Gardens	Residential	100%	$73.7	$1.9	100%
120 Grange	Residential	90%	$92.3	$49.0	100%
Bukit 828	Residential	80%	$32.2	$13.4	100%
Arena Residences	Residential	50%	$67.1	$40.6	100%
RV Altitude	Residential	100%	$218.8	$149.1	100%
Fyve Derbyshire	Residential	100%	$95.9	$74.3	75%
Wilshire Residences	Residential	40%	$21.2	$18.6	34%
Dunearn 386	Residential	100%	$31.5	$21.5	51%
View at Kismis	Residential	60%	$139.5	$115.0	98%
Neu at Novena	Residential	50%	$64.0	$56.8	83%
Malaysia					
Wisma Infinitum – The Colony	Residential	47%	$59.4	$15.1	80%
Wisma Infinitum – The Luxe	Residential		$34.5	$9.1	55%
Total			**$930.1**	**$564.4**	

Source: Company Data, SAC Capital

As at 30 June 2021, based on units sold from ongoing development projects, the Group had total attributable pre-sale revenue of S$564.4m (up from $552.1m in Jan 2021), which would see profit recognition from 1 July 2021.

Upcoming development projects

Roxy-Pacific previously acquired two 999-year/freehold sites at Jalan Molek/Guillemard Road (100% interest) and Institution Hill (42% interest), which they plan to launch for sale from 2HFY21.

Project Location	Proposed Development	% Stake	Approximate Total Land Area (sq ft)	Approximate Total GFA (sq ft)	Approximate Attributable Land Cost	Forecasted GDV (Attributable)
Jalan Molek & Guillemard Rd	Residential 137 units	100%	37,131	103,967	$93.0m	$180m
Institution Hill	Residential 60 units	42%	14,300	40,040	$23.8m	$44.1m
Total	**197 units**		**51,431**	**144,007**	**$116.8m**	**$224.1m**

Source: Company Data, SAC Capital

Investment Summary

Private residential property prices unwavering from its highs

The private residential property price index hit 163.5 in Q2 2021 (Q1: 162.2). This was an increase of 0.8%, compared to the 3.3% increase in Q1.

As at Q2, 19,384 private residential units remained unsold (Q1: 21,602, Q4 20: 24,300). In face of the rising housing demand, developers have been seeking to replenish their land banks. However, the current low supply in the market will continue to be a driver of private property sale prices, especially as many high-net-worth individuals continue to park their investments and buy homes in Singapore.

Furthermore, property cooling measures may not be entirely unlikely for HDB flats, with the increasing number of million-dollar flats sold, especially as they are supposed to be more affordable. If that happens, private residential properties will become more attractive.

Expect high construction costs, delays in construction still

Singapore's construction sector has been facing manpower supply crunch ever since the border restrictions which significantly reduced the number of foreign workers allowed to enter. Singapore in July announced a pilot programme to bring in foreign workforce to address the issue, which has been trialled on Malaysia and India workers.

We expect high construction costs and delays in construction to continue, at least in the near-term, as the recovery of the construction sector hinges on the successful easing of shortage on manpower. Higher global vaccination rates will be catalyst, but the highly transmissible Delta variant and the worsening situation in key manpower supply areas like Malaysia and India continue to pose as headwinds.

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