

Hock Lian Seng Holdings

Earnings bottoming in sight

SINGAPORE | INFRASTRUCTURE | UPDATE

- Hock Lian Seng Holdings' (HLSH) 9M16 Revenue/Profit After Taxes and Minority Interests (PATMI) met 77%/86% of our forecast
- Gross profit was boosted by a one-off gain from the closure of a few completed construction projects which amounted to c.\$5 million
- We have adjusted our forecast and valuations to take into account of a S\$60 million cash inflow from the repayment of loan from the Group's Joint Venture (JV) company, as well as higher gross margins attained from existing Civil Engineering projects

Existing Civil Engineering projects will continue to provide revenue visibility into 2020; Group is unable to sustain dividend payments from the Civil Engineering segment alone

Including the recently bagged contract worth S\$1.1 billion involving development works at Changi Airport via a 60:40 JV, HLSH has a total of four civil engineering projects with a net order book of S\$963 million which will last to 2020. Moving forward, we are of the view that a blended gross margin of 5% (higher than our initial estimate of 3.5%) is achievable from the Civil Engineering segment. However, [as gross margins have continued to decline considerably across the years amid the highly competitive landscape](#), the Group will be unable to sustain prior years' dividend payments in the absence of contribution from the property development segment since The Skywoods have been completely sold in July 2016 while the recognition of revenue from Shine@Tuas would only occur after the industrial property is completed in FY18.

Strength in balance sheet fuelled by an abundance in cash; 75% of cash will be dedicated for working capital of Civil Engineering projects and development cost for Tuas@Shine

After the repayment of loans amounting to S\$60 million from the Group's JV Company where it was primarily involved in the development of The Skywoods, HLSH's cash position has ballooned to S\$202.6 million where its current cash position is currently standing at the highest since its listing in 2009. However, we are expecting the Group to stand by c.75% of its cash position as working capital for its existing Civil Engineering project (10% of order book - S\$96.3m), and development costs for Tuas@Shine (30% of projected development costs - S\$52.9m). Consequently, it is unlikely for the Group to utilise its remaining cash to pursue significant acquisitions for growth in at least the next few quarters, or maintain its historical dividend pay outs.

Investment Action

While we acknowledge that there are headwinds in the Civil Engineering and Property Development sectors, where the two sectors are the key drivers for HLSH's earnings, we are of the view that the bottoming of its earnings is in sight i.e. FY17. Additionally, the strength of its balance sheet helped by a rich cash position (net cash position of S\$187.1 million) will allow the Group to be self-reliant on internal resources and help it to tide through the current challenging climate. We have upgraded our rating to "neutral" along with a higher TP of S\$0.38 based on FY16's full-year SOTP valuation.

8 November 2016

Neutral (Upgrade)

LAST DONE PRICE	SGD 0.370
FORECAST DIV	SGD 0.011
TARGET PRICE	SGD 0.380
TOTAL RETURN	3.0%

COMPANY DATA

O/S SHARES (MN) :	510
MARKET CAP (USD mn / SGD mn) :	136 / 189
52 - WK HI/LO (SGD) :	0.42 / 0.32
3M Average Daily T/O (mn) :	0.25

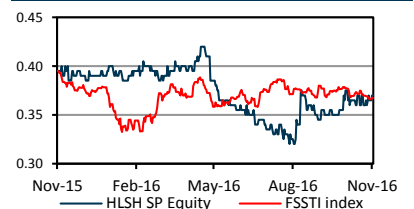
MAJOR SHAREHOLDERS (%)

CHUA LEONG HAI	38.0%
ENG AH GOH	8.3%
CHUA AIK KHOON	5.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.8	10.6	1.0
STI RETURN	(3.3)	(0.7)	(4.7)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY14	FY15	FY16E	FY17E
Revenue (SGD'mn)	262	175	110	116
Gross Profit (SGD'mn)	98	39	11	13
NPAT (SGD'mn)	73	37	19	18
EPS (SGD)	0.14	0.07	0.04	0.03
P/BV (X)	0.7	0.9	0.8	0.8
DPS (SGD'cents)	4	2.5	1.1	1
Div Yield (%)	13.3	6.4	3.0	2.7
ROE (%)	35.4	16.6	8.2	7.1

Source: Company Data, PSR est.

Valuation Method

SOTP

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Valuations

Sum of the Parts (SOTP)	
Civil Engineering (P/E)	
FY16E EBIT (\$'m)	9.118
Segment NPAT (\$'m)	7.568
EPS (S\$)	0.01
Forward Industry P/E (X)	7.5
Segmental Price Per Share (S\$)	0.11
Property Development (P/B)	
Segment Book Value Per Share (BVPS) (S\$)	0.20
Discount to Book (%)	50%
+ Segmental Price Per Share (S\$)	0.10
+ Net Cash Per Share (S\$)	0.17
Fair Value (S\$)	0.38

Source: Phillip Securities Research (Singapore)

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16E	FY17E	FY18E
Revenue	262	175	110	116	200
Cost of Sales	(164)	(136)	(99)	(103)	(166)
Gross Profit	98	39	11	13	35
Distribution & Admin Expenses	(8)	(6)	(5)	(6)	(6)
Net Finance (Expense)/Inc	3	4	5	6	8
Other Expenses	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Associates & JVs	0	8	11	8	8
Profit Before Tax	87	42	21	21	45
Taxation	(15)	(6)	(2)	(4)	(8)
Profit After Tax	73	37	19	18	37
Non-Controlling Interest	0	0	0	0	0
PATMI	73	37	19	18	37

Per share data (SGD)

	FY14	FY15	FY16E	FY17E	FY18E
EPS	0.14	0.07	0.04	0.03	0.07
DPS	0.040	0.025	0.011	0.010	0.022
BVPS	0.40	0.43	0.46	0.49	0.54

Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16E	FY17E	FY18E
CFO					
Profit before tax	87	42	21	21	45
Adjustments	45	(4)	(8)	(5)	(5)
WC changes	(15)	1	(26)	(147)	160
Cash generated from ops	117	39	(13)	(131)	200
Taxes paid, others	(5)	(22)	(2)	(4)	(8)
Cashflow from ops	111	15	(19)	(140)	185
CFI					
CAPEX, net	(2)	(3)	(2)	(2)	(2)
Others	(2)	(6)	60	0	0
Cashflow from investments	(7)	(14)	55	(5)	(5)
CFF					
Loans, net of repayments	(32)	11	54	54	(108)
Dividends	(9)	(20)	(13)	(6)	(5)
Others	0	0	5	0	0
Cashflow from financing	(41)	(10)	46	48	(113)
Net change in cash	63	(9)	83	(97)	67
CCE, end	166	157	240	143	209

Source: Company, PSR (Singapore) Estimates

*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16E	FY17E	FY18E
ASSETS					
PP&E	8	9	11	14	16
Investment properties	4	3	3	3	3
Investment securities	25	24	24	24	24
JVs	0	5	5	5	5
Others	7	7	7	7	7
Total non-current assets	44	49	60	68	50
Development properties	74	47	73	223	73
Trade receivables	45	6	8	12	25
Cash balance	166	157	240	143	209
Others	71	83	34	40	20
Total current assets	355	293	346	403	335
Total Assets	400	341	406	471	384

LIABILITIES

Short term loans	5	0	0	108	16
Trade payables	61	51	49	48	44
Provisions	45	45	45	45	45
Others	81	8	6	6	6
Total current liabilities	193	104	101	208	111
Long term loans	0	16	70	16	0
Others	1	0	0	0	0
Total non-current liabilities	1	16	70	16	0
Total Liabilities	194	120	171	223	111

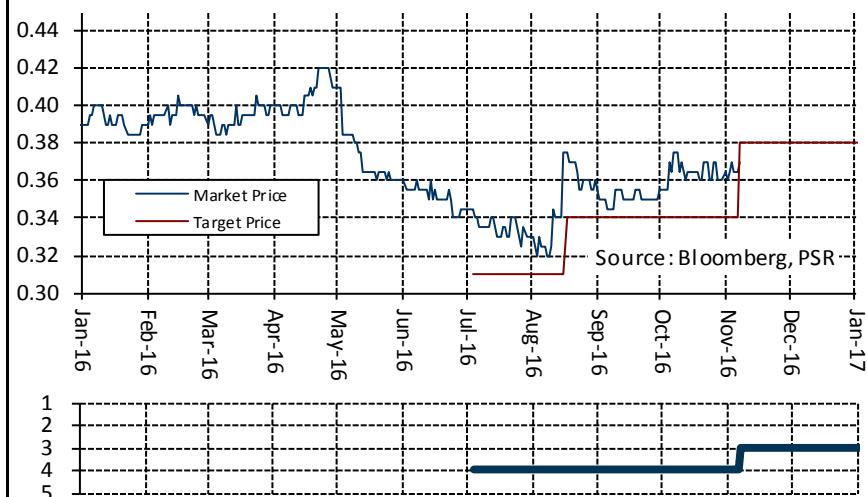
EQUITY

Non-controlling interest	0	0	0	0	0
Common Shareholder Equity	205	222	235	247	273

Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16E	FY17E	FY18E
P/B (X)	0.75	0.90	0.82	0.78	0.71
Dividend Yield (%)	13.3%	6.4%	3.0%	0.0%	5.7%
Growth & Margins (%)					0.0%
Growth					
Revenue	181.9%	-33.2%	-36.8%	5.4%	72.1%
Gross Profit	159.5%	-60.3%	-71.8%	21.0%	162.0%
PATMI	203.9%	-49.5%	-47.4%	-8.9%	N.A.
Margins					
Gross Margin	37.3%	22.2%	9.9%	11.4%	17.3%
Net Margin	27.8%	21.0%	17.5%	15.1%	18.5%
Key Ratios					
ROE (%)	35.4%	16.6%	8.2%	7.1%	13.5%
ROA (%)	16.3%	9.9%	5.2%	4.0%	8.7%
Net Debt/(Cash)	(161)	(141)	(170)	(19)	(194)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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