

Hock Lian Seng Holdings

5-year revenue visibility from Civil Engineering

SINGAPORE | INFRASTRUCTURE | 1Q17 RESULTS

- 1Q17 results were below our expectations but expect earnings to accelerate as works at Changi Airport project is expected to accelerate and boost revenue in the next few quarters
- Performance in Civil Engineering (CE) segment remains stable with order book standing at S\$915 million that can last till FY22
- Construction of Shine@Tuas industrial property development project on track to be completed in FY18; Expect sales to accelerate as sentiments improve

Results at a glance

(SGD mn)	1Q17	1Q16	YoY	Comments
Revenue	28.0	23.6	↑ 19%	Commencement of works at Changi Airport JV Civil Engineering project
Gross Profit	2.4	1.4	↑ 71%	
Profit before tax	2.3	2.6	↓ -12%	Absence of contribution from JV residential project which has been fully recognised
Net income	2.1	2.5	↓ -16%	

Source: Company Data

Performance in CE segment remains stable with additional contribution from Changi Airport JV project secured in FY16

The Group's order book in CE stands at S\$915 million as at 1Q17 with more than 70% of the amount coming from the recently awarded 60:40 Changi Airport JV (CAJV) project. Gross profit from the CE segment came in 71.4% higher YoY amid new contribution from CAJV project. We are expecting works in the CAJV project to accelerate in the next quarters which will translate to higher revenue to be booked in moving forward. Additionally, the CE segment is expected to remain stable backed by four projects on hand (including CAJV), and will be the main revenue driver for the rest of FY17 in absence of revenue contribution from property development.

Construction of Shine@Tuas on track to be completed in FY18

The Group is currently constructing a 174-unit B2 industrial development property in the Tuas district, which is expected to be completed and handed over in FY18. Sales in the development project has been weak with few units as at 1Q17. The Group is expected to boost marketing efforts in the development project in order to accelerate sales. As at the end of 1Q17, we are estimating the Group to incur another S\$70 million in development costs (c.50% incurred) which can be funded mostly with internal resources. We are projecting the Group to book in a development profit of c.S\$30.6 million (adding S\$0.06 to our RNAV estimate) when the property is completely sold.

Investment Actions

The CE segment continues to remain stable with a sizeable order book which is able to provide revenue visibility till FY22. Sales at the Group's industrial property development, Shine@Tuas, remains weak although we are expecting sales figures to be lifted by an improvement in sentiments in the overall industrial property landscape, as well as ongoing marketing efforts. We have upgraded our rating to "Accumulate" with an unchanged TP of **S\$0.57**. TP is post-payment of special dividends and final dividends declared in FY16 and paid in May 2017.

11 May 2017

Accumulate (Upgrade)

LAST DONE PRICE	SGD 0.475
FORECAST DIV	SGD 0.008
TARGET PRICE	SGD 0.570
TOTAL RETURN	21.7%

COMPANY DATA

O/S SHARES (MN) :	510
MARKET CAP (USD mn / SGD mn) :	172 / 242
52 - WK HI/LO (SGD) :	0.54 / 0.27
3M Average Daily T/O (mn) :	2.06

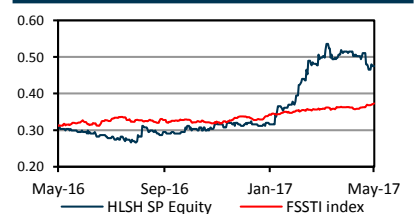
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.4)	31.6	57.6
STI RETURN	3.1	6.7	21.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY15	FY16	FY17E	FY18E
Revenue (SGD'mn)	175	118	194	256
Gross Profit (SGD'mn)	39	30	16	25
NPAT (SGD'mn)	37	36	13	21
EPS (SGD'cents)	7.0	8.0	3.0	4.0
P/BV (X)	0.9	1.2	1.5	1.4
DPS (SGD'cents)	2.5	2.5	0.8	1.2
Div Yield (%)	6.4	4.3	1.4	2.1
ROE (%)	16.6	14.7	6.8	9.9

Source: Company Data, PSR est.

Valuation Method

SOTP

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Valuations

SOTP (FY17 Full Year)	
Civil Engineering (P/E)	
FY17E EBIT (\$'m)	17.872
Segment NPAT (\$'m)	14.834
EPS (S\$)	0.03
Industry P/E	8
Segmental Price Per Share (S\$)	0.23
Property Development (P/B)	
Segment Book Value (S\$'m)	64
Segment Book Value Per Share (BVPS) (S\$)	0.13
Development profits	0.06
Discount to Book (%)	50%
+ Segmental Price Per Share (S\$)	0.09
+ Net Cash Per Share (S\$)	0.25
Fair Value (S\$)	0.57

Source: Phillip Securities Research (Singapore)

**Net cash excludes special dividend per share and dividend per share (S\$0.10 and S\$0.025) declared in FY16*

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
Revenue	175	118	194	256	199
Cost of Sales	(136)	(88)	(178)	(231)	(180)
Gross Profit	39	30	16	25	19
Distribution & Admin Expense	(6)	(5)	(6)	(6)	(7)
Net Finance (Expense)/Inc	4	5	7	7	7
Other Expenses	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Associates & JVs	8	12	0	0	0
Profit Before Tax	42	40	16	25	19
Taxation	(6)	(4)	(3)	(4)	(3)
Profit After Tax	37	36	13	21	16
Non-Controlling Interest	0	0	0	0	0
PATMI	37	36	13	21	16

Per share data (SGD)

	FY15	FY16	FY17E	FY18E	FY19E
EPS	0.07	0.08	0.03	0.04	0.03
DPS	0.025	0.025	0.008	0.012	0.009
BVPS	0.43	0.48	0.38	0.41	0.43

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
CFO					
Profit before tax	42	40	16	25	19
Adjustments	(4)	(13)	5	6	7
WC changes	1	(19)	(39)	28	42
Cash generated from ops	39	9	(18)	59	68
Taxes paid, others	(22)	(6)	(3)	(4)	(3)
Cashflow from ops	15	6	(18)	58	61
CFI					
CAPEX, net	(3)	(9)	(3)	(4)	(4)
Others	(6)	60	1	0	0
Cashflow from investments	(14)	56	(6)	(7)	(8)
CFF					
Loans, net of repayments	11	0	0	(15)	0
Dividends	(20)	(13)	(64)	(4)	(6)
Others	0	0	0	0	0
Cashflow from financing	(10)	(13)	(64)	(19)	(6)
Net change in cash	(9)	49	(88)	31	47
CCE, end	157	206	118	149	196

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	FY15	FY16	FY17E	FY18E	FY19E
ASSETS					
PP&E	9	16	14	13	10
Investment properties	3	3	3	3	3
Investment securities	24	27	27	27	27
JVs	5	15	15	15	15
Others	7	4	4	4	4
Total non-current assets	49	64	53	36	31
Development properties	47	72	106	62	10
Trade receivables	6	14	14	24	25
Cash balance	157	206	118	149	196
Others	83	16	13	5	10
Total current assets	293	308	261	266	269
Total Assets	341	372	314	302	300
LIABILITIES					
Short term loans	0	0	0	0	0
Trade payables	51	51	44	32	20
Provisions	45	27	27	27	27
Others	8	34	34	34	34
Total current liabilities	104	111	104	93	80
Long term loans	16	15	15	0	0
Others	0	0	0	0	0
Total non-current liabilities	16	15	15	0	0
Total Liabilities	120	127	120	93	80
EQUITY					
Non-controlling interest	0	0	0	0	0
Common Shareholder Equity	222	245	195	209	220

Valuation Ratios

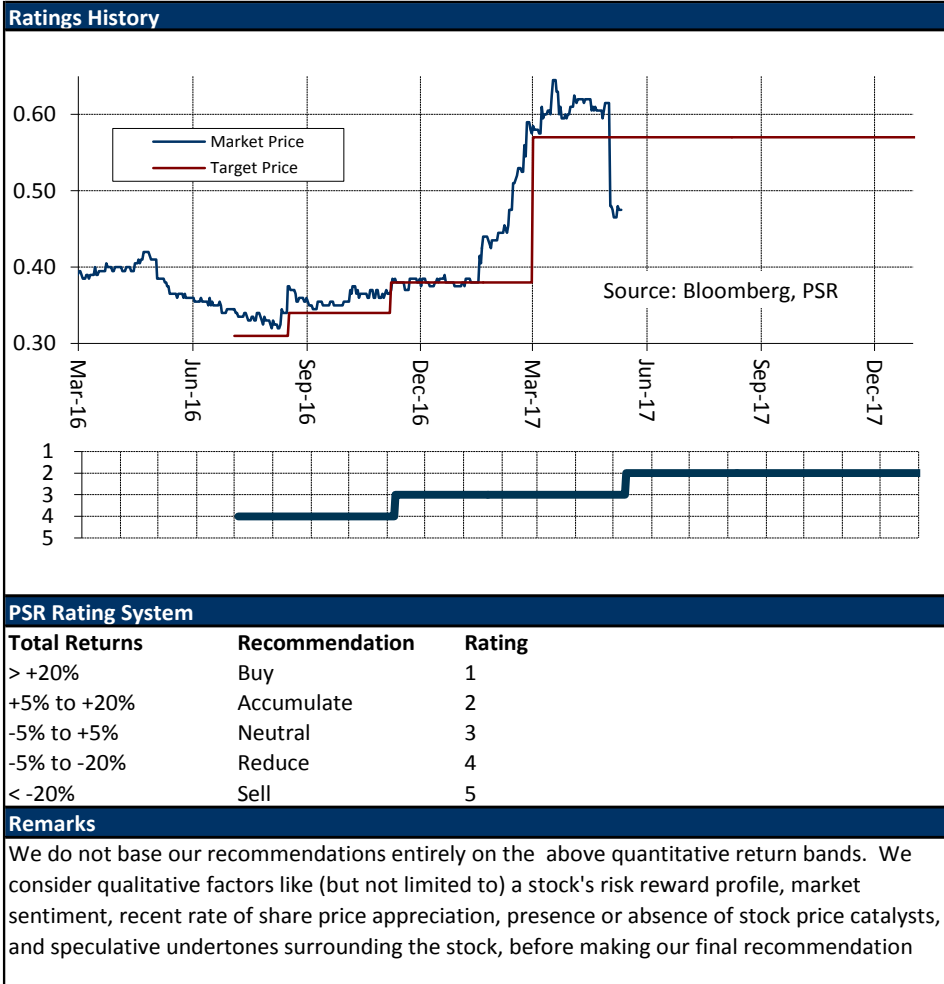
Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
P/B (X)	0.90	1.21	1.52	1.41	1.34
Dividend Yield (%)	6.4%	4.3%	1.4%	2.1%	1.6%

Growth & Margins (%)

Growth					
Revenue	-33.2%	-32.4%	64.0%	32.0%	-22.3%
Gross Profit	-60.3%	-21.9%	-48.5%	59.4%	-24.1%
PATMI	-49.5%	-2.1%	-62.9%	N.A.	N.A.
Margins					
Gross Margin	22.2%	25.6%	8.0%	9.7%	9.5%
Net Margin	21.0%	30.4%	6.9%	8.1%	7.9%

Key Ratios

ROE (%)	16.6%	14.7%	6.8%	9.9%	7.1%
ROA (%)	9.9%	10.1%	3.9%	6.7%	5.2%
Net Debt/(Cash)	(141)	(190)	(103)	(149)	(196)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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