

Ley Choon Group Holdings Ltd

Ley-ing Up Piece by Piece

Ley Choon Group Holdings Limited caught our attention following the announcement of the completion of the sale of its property at 61 Senoko Drive for S\$14.2m. We estimate that this transaction will bring Ley Choon's FY13F net profit after tax to S\$23.2m, half of which may be contributed by the Senoko Drive property. Based on a P/E multiple of 14x, we set a potential value of S\$0.260.

Background: Ley Choon currently operates out of its Sungei Kadut facility. The sale of 61 Senoko Drive is in line with the company's strategy of integrating its production, storage and distribution facilities in Sungei Kadut. Ley Choon's new facilities in Sungei Kadut consist of 2 asphalt premix plants, a R&D center, and a logistics hub. The new facilities sit on an area of 26,008 sq m and the plants have a total capacity of 575 tonnes per hour. In addition, there are 10 storage silos with a total tonnage of 1,000 tonnes to handle the increased production volume.

Ley Choon has 2 operating segments: Pipes and Roads (PR) and Construction Materials (CM). PR operations include underground and utilities infrastructure construction and maintenance works. Further, PR operations also involve the construction and maintenance of roads, airfield taxiways and parking aprons. CM services are predominantly the supply of precast asphalt materials. Some of the supply of precast asphalt is for PR operations.

Potentially Higher Dividends: The company has set a dividend policy to pay out no less than 30% of FY13 net profit. As such, the gains from disposal translate to potentially higher dividends for shareholders without the company changing its payout ratio. Moreover, any excess funds can be deployed to bid for more projects or to support overseas expansion.

Growth Prospects: Ley Choon has secured S\$167m in contracts for FY13 and has an order book of S\$234m. These contracts are expected to provide the company with strong earnings till FY15. We expect Ley Choon to secure more contracts and maintain a healthy order book as the demand from the construction sector remains strong.

Potential Gem

- Potential Value S\$0.260
- Prev Closing S\$0.199

Main Activities

Ley Choon Group Holdings Limited provides underground utilities infrastructure construction and maintenance, sewer pipeline rehabilitation, road and airfield construction and maintenance as well as asphalt pre-mix production and construction waste recycling.

Financial Highlights

(Y/E Dec)SGD'm	FY11	FY12
Revenue	127	148
Gross Profit	29	27
Profit After Tax*	15	(3)
Earnings per share	3.8	(0.8)
Dividends per share	0.13	-
Cash from Operating activities	8.6	(19.2)
Cash from Investing activities	7.2	(16.4)
Cash from Financing activities	29.4	7.6
Total assets	148	215
Total liabilities	89	137
Total equity	59	78

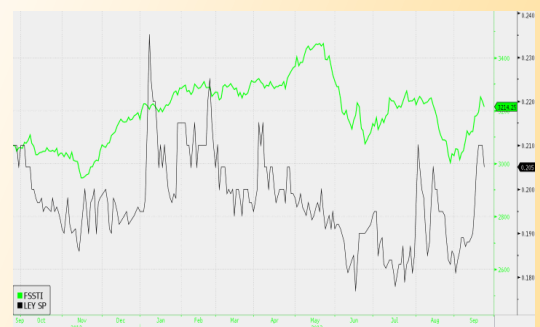
Source: Voyage Research, Bloomberg

Note: The loss in FY 12 was due to a one off impairment of S\$ 11m from the RTO exercise. Excluding the impairment, profit after tax for FY'12 would have been S\$ 8m.

Indexed Price Chart

Green (FSSTI)

Black (Ley Choon)



Source: Bloomberg

52wks High-Low S\$0.240 / S\$0.175
Number of Shares 592m
Market Capitalization S\$117.8m

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Company History: Ley Choon was set up in 1990 and was listed on the SGX Mainboard in 2012 through the RTO of Ultron Technologies. The company had its beginnings as a sub-contractor in pipe laying. Subsequently, the company ventured into the cable laying business after an acquisition of Teacly (S) Pte. Ltd. Teacly went on to use trenchless technology and moved into the sewer rehabilitation business.

Ley Choon is a BCA registered L6 contractor (highest grade) for cable and pipe laying, road reinstatement, and other basic construction materials. This allows them to bid for public sector contracts, in relation to these activities, with no restriction on project value. In addition, the company is a registered A2 contractor (2nd highest grade) for civil engineering. This allows them to bid for other public sector civil engineering projects with value of up to S\$85m.

Ley Choon has also ventured overseas in Brunei and China. In Brunei, the company has secured 8 civil engineering projects worth S\$83m, including water treatment projects and other infrastructure projects such as flyover bridges. In China, the company commenced construction of a 50,000 sq m construction waste recycling plant to expand the CM operations.

Ley-ing Up Piece by Piece: In valuing Ley Choon, we took into account the various pieces of Ley Choon's businesses: (1) potential earnings growth and cost savings of the PR business unit, (2) contribution from the property sales, and (3) potential contract wins for public infrastructure projects given strong demand.

We applied a P/E multiple of 14X to FY13F recurring net profit (taking into consideration the current valuation of similar construction companies) to arrive at a value of S\$0.260. In addition, the company intends to distribute not less than 30% of the net profit for FY13. Hence, assuming a 35% dividend payout ratio, shareholders could potentially receive a dividend yield of 5%. **Potential Gem**

Figure 1: Valuation

S\$m	FY 13F
PR's net profit	10.8
CM's net profit	0.4
Est contribution from 61 Senoko Drive	12 - 13
NPAT	23.2
Est dividend payout ratio	0.35
Dividends	8.12
Shares outstanding	592.4
Dividend per share	0.01
Recurring Income	11.2
Forecast P/E	14
Estimated value	156.8
Shares outstanding	592.4
Potential value per share	0.26

Source: Voyage Research

Rating Definition:

True Gem – This stock is greatly underappreciated by the market, with more than 50% upside opportunity from its current share price.

Convincing Gem – This stock is underappreciated by the market, with more than 30% upside opportunity from its current share price.

Potential Gem – This stock is not fairly valued by the market, with more than 15% upside opportunity from its current share price.

Potential Stone – This stock is overrated by the market, with more than 1% downside risk from its current share price.

Convincing Stone – This stock is overvalued by the market, with more than 25% downside risk from its current share price.

True Stone – This stock is seriously overvalued by the market, with more than 40% downside risk from its current share price.

IMPORTANT DISCLOSURE:

As of the date of this report, the analyst and his immediate family may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
