

Ley Choon Group Holdings Ltd

Growth Plans Affirmed by Islamic Bank Asia

Ley Choon recently announced the proposed issuance of S\$15m in convertible instruments structured under the Shariah financing principle of Murabaha with the Islamic Bank of Asia as the strategic investor.¹ The issuance is still in the midst of finalization and it is expected to be completed by the end of 1Q FY14.

Under the proposed transaction, the S\$15m will be converted into shares of Ley Choon subsequently. Assuming a conversion between the last traded price of S\$0.178 and our valuation of S\$0.280, an estimated 84.3m and 53.6m new shares will be issued respectively.

We view this step as a further affirmation for Ley Choon's near term growth plans. These includes bidding for public projects from PUB and LTA, and overseas expansion in Brunei and Yantai. In addition, we do not rule out the possibility of the S\$15m proceeds to pay down part of the short term bank loans.

We have also noted that since our last update report on 14th November, there has been insider buying of 240,000 shares by the controlling shareholder Zheng Choon Holdings. We view that as a signal that the current share price is underappreciated and that there is a possibility that insider buying may continue after the issuance is completed.

We maintain our forecast for Ley Choon to reach our FY13 revenue target of S\$159m based on their current projects and expected completion. With the sale of the building at 61 Senoko Drive, Ley Choon's 9M FY13 PAT of S\$19m has already surpassed our FY13 PAT forecast of S\$12m. Hence, we revise our FY13 PAT forecast to S\$23m.

Currently, we maintain our forecast for a FY13 dividend at S\$0.011/share or a dividend yield of 5.8%. Depending on the terms of the issuance, we may revise our estimates to reflect a fairer picture. Maintain recommendation of **Increase Exposure** with an intrinsic value of S\$0.280.

¹ Murabaha is an Islamic financing structure where it serves as a form of credit sale under Sharia (Islamic law).

Increase Exposure

- Intrinsic Value S\$0.280
- Prev Closing S\$0.178

Main Activities

Ley Choon Group Holdings Limited provides pipes and cables laying, sewer rehabilitation, and road construction and maintenance. The company is a main contractor for PUB and is a major player for public infrastructure projects. Ley Choon is also expanding overseas to Brunei in taking public infrastructure projects and to China in providing construction materials waste recycling.

Financial Highlights

(Y/E Dec)S\$'m	FY11	FY12	FY13F
Revenue	127	148	159
Gross Profit	29	27	33
Profit After Tax	15	(3)	12*
EPS (S\$ cts)	2.5	-	2.1

Source: Voyage Research estimates

Note: FY13F PAT excludes the S\$11m gain on disposal

Key ratios (FY13F)

P/E	9.1
P/B	1.3
ROE	14%
Debt/Equity	1.1
Current ratio	1.6

Source: Voyage Research estimates

Indexed Price Chart

Green (FSSTI)

Black (Ley Choon)



Source: Bloomberg

52wks High-Low	S\$0.240 / S\$0.175
Number of Shares	592.4m
Market Capitalization	S\$106m

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Figure 1: Economic profit valuation

(in S\$ '000)	FY13F	FY14F	FY15F	FY16F	FY17F	FY18F
Contract revenue	154,117	163,364	173,166	180,093	187,297	191,043
Sales of construction materials	4,547	4,957	5,403	5,781	6,186	6,495
Revenue	158,665	168,321	178,569	185,874	193,482	197,538
EBIT	16,311	20,139	21,029	22,764	23,110	20,275
Tax on EBIT	(2,773)	(3,424)	(3,575)	(3,870)	(3,929)	(3,447)
NOPLAT	13,539	16,715	17,454	18,894	19,182	16,828
Invested capital	152,647	163,884	173,732	184,185	190,655	198,546
% of debt	50.4%	47.1%	44.0%	40.9%	38.1%	36.3%
% of equity	49.6%	52.9%	56.0%	59.1%	61.9%	63.7%
WACC	6.1%	6.3%	6.5%	6.7%	6.8%	6.9%
Capital charge	9,369	10,367	11,301	12,303	13,042	13,782
Economic profit	4,169	6,348	6,153	6,591	6,140	3,046
Terminal value						84,376
Discount rate	1.06	1.13	1.21	1.30	1.40	1.50
Present value	3,921	5,596	5,068	5,058	4,390	2,026
						56,115
Book value	82,262				Risk free rate	2.5%
PV of total economic profit	26,060				Beta	1.00
PV of terminal value	56,115				Market risk premium	9.0%
Firm value	164,437				Cost of equity	9.0%
Shares outstanding (in '000)	592,410				Cost of debt	4.0%
Intrinsic value	0.28				Long term growth rate	2.5%

Source: Voyage Research estimates

Figure 2: Financial forecasts and estimates

	FY12	FY13F	FY14F	FY15F	FY16F	FY17F	FY18F
Revenue	148,450	158,665	168,321	178,569	185,874	193,482	197,538
Cost of sales	(121,062)	(125,345)	(134,657)	(142,855)	(146,840)	(152,851)	(154,079)
Gross profit	27,388	33,320	33,664	35,714	39,034	40,631	43,458
Net profit after tax	(3,157)	12,194	14,570	15,354	16,840	17,173	14,820
Total current assets	144,265	141,850	147,958	154,477	152,742	160,741	161,319
Total non-current assets	70,558	78,531	83,166	88,085	99,027	102,983	111,018
Total current liabilities	94,142	91,165	91,709	92,399	89,817	89,752	87,990
Total non-current liabilities	42,678	42,678	42,678	42,678	42,678	42,678	42,678
Total equity	78,003	86,538	96,737	107,485	119,273	131,295	141,669
Profit after tax	(3,157)	12,194	14,570	15,354	16,840	17,173	14,820
Cash from operating activities	(19,218)	21,388	23,287	24,388	36,826	30,276	40,040
Cash from investing activities	29,365	(11,382)	(8,793)	(8,973)	(9,364)	(9,408)	(6,866)
Cash from financing activities	(16,385)	(18,201)	(16,059)	(17,038)	(23,798)	(18,455)	(23,126)
Net change in cash	(6,238)	(8,195)	(1,564)	(1,623)	3,664	2,413	10,048
Beginning balance	23,681	17,136	8,941	7,376	5,753	9,417	11,831
Ending balance*	23,891	15,696	14,131	12,508	16,172	18,586	28,633
ROE	-4%	14%	15%	14%	14%	13%	10%
ROA	-1%	6%	6%	6%	7%	7%	5%
Debt / equity	1.23	1.05	0.92	0.81	0.71	0.63	0.59
Current ratio	1.53	1.56	1.61	1.67	1.70	1.79	1.83
P / E	N.A.	9.09	7.60	7.21	6.58	6.45	7.48
P / B	2.10	1.28	1.15	1.03	0.93	0.84	0.78
EPS (in S\$)	N.A.	0.02	0.02	0.03	0.03	0.03	0.03

Source: Voyage Research estimates

Note: Ending balance of cash and equivalents may differ due to fixed deposits pledged.

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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