

HONG LAI HUAT GROUP LTD

NON-RATED

Share Price: **S\$0.096**

COMPANY DESCRIPTION

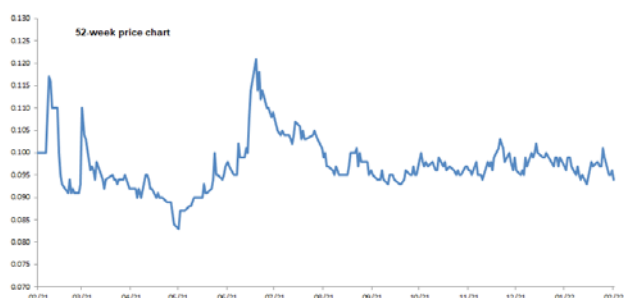
Hong Lai Huat Group is a real estate and property developer with a successful track record spanning more than three decades. Established in 1988, the Group has completed more than 30 projects in Singapore ranging from public and private residential developments to commercial and industrial buildings.

Name	HONG LAI HUAT GROUP LTD
Bloomberg Code	HLHG SP Equity
3M Avg Daily Trading Vol (k)	976.3
3M Avg Daily Trading Val (\$'000)	94.6
Major Shareholder / Holdings	Ong Family (47%)
Shares Outstanding (m)	517.8
Market Capitalisation (\$m)	49.2
52 week Share Price High/Low	S\$0.139 / S\$0.082

STOCK PRICE PERFORMANCE

Absolute Return (%)	1M	3M	12M
	-1.0	-2.0	-3.1

PRICE CHART



Source : Bloomberg, LTS Research

Property Developer In Cambodia With Low P/B

Hong Lai Huat is a deep value property developer in Cambodia trading at 0.4x P/B, with 74% of its book value being backed by properties and cash. The Group's 4 property development projects and prospective addition of new revenue streams from the development of Agri-Hub (100 million sqm) in Cambodia, are expected to provide earnings visibility for the Group in the next few years. Share price has been trading in a tight range, likely to be supported by recent share buybacks, rights issue price of S\$0.091, where the major shareholders have increased their stake from 25% to more than 40%, as well as its asset backed book. With the opening up of Cambodia, management has expressed optimism over the Group's recent property sales, which may act as potential catalyst for the Group's share price, when the FY2021 results are released on 28 Feb 2022.

Hong Lai Huat is trading at 0.4x P/B, with a net cash position of S\$10m as at 30 June 2021. Notably, the Group's book value is also likely to be highly undervalued with its agricultural land (100 million sqm) in Cambodia which has received approval in June 2021 to convert into mixed use development. This will significantly lift the intrinsic value of the asset that is currently held at cost in its balance sheet. In addition to being one of the few property developers with a net cash position, 74% of the Group's assets (or S\$0.25/share) are backed by hard assets consisting of cash and properties, serving as a support to the Group's valuation and share price.

Redevelopment of mega mixed development (1/7 the size of Singapore) ... Hong Lai Huat is currently redeveloping its 100m sqm agricultural land into Cambodia-Singapore Agriculture Hub (Agri-Hub) which will include various zones including food processing factories, warehousing facilities and logistic hub, renewable energy, livestock farms, construction material zone, plantation zone, light industry zone, commercial and community living concepts.

... with potential additional multiple income stream in the future. To develop Agri-Hub, Hong Lai Huat intends to either sell or lease the land to developers or business owners, which will generate immediate income and cashflow to the Group. Alternatively, the Group are also in talks for joint ventures, where depending on the terms of the negotiation, Hong Lai Huat may contribute in the form of land while its JV partner will contribute its expertise and monetary resources to develop and operate the new development at Agri-Hub. In October 2021, the Group signed a JV agreement with HSC Group for the exploration and mining of mineral resources in Agri-Hub, which is expected to provide an additional stream of income to the group once mining commences.

KEY FINANCIALS

December YE	FY18	FY19	FY20	1H20	1H21
Revenue (S\$m)	34.4	29.3	8.0	5.5	12.1
Gross Profit (S\$m)	18.6	14.9	3.5	3.0	5.2
Net Profit (S\$m)	7.6	1.8	-8.5	-1.3	-1.3
EPS (S¢)	1.468	0.348	-1.642	-0.251	-0.251
EPS Growth (%)	N.M.	-76.3	N.M.	N.M.	N.M.
P/E (x)	6.5	27.6	N.M.	N.M.	N.M.
P/B (x)	0.5	0.5	0.4	0.4	0.4
ROE (%)	5.9	1.4	N.M.	N.M.	N.M.
DPS (S¢)	0.5	0	0	0	0
Dividend Yield (%)	5.2	0	0	0	0

* All figures are based on current share capital of 517.8mln shares

Source: Bloomberg, Lim & Tan Research

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Ongoing development projects to provide earnings visibility. In the meantime, sales efforts continue to be ongoing for the Group's property developments, D'Seaview and Royal Platinum, in Cambodia. 85% of D'Seaview has been sold, while construction of Royal Platinum continues to be on track for completion by 4QFY2023. The Group has also secured its 3rd and 4th development project, with a mixed used freehold development to be launched in Phnom Penh, Cambodia and a JV development for a wholesale and distribution center at Sihanoukville, Cambodia, which will provide earnings visibility for the Group in the next few years.

Earnings rebound in FY2021? In a business update issued in Jan 2022, the Group expressed its optimism over the sales of its property development projects. In particular, the Group has started to see an improvement in the handing over of sold units to its buyers for its D'Seaview project from 4QFY2021 and a pick up in sales for its Royal Platinum project where 90% of its commercial and penthouse units had been sold. We believe these positive developments are expected to be recognised in the coming results which will be released by 28 Feb 2022, providing a positive catalyst for the stock. The Group has already shown an improvement in financial performance in 1HFY2021. Revenue more than doubled to S\$12.1m with gross profit jumping 70%. While the Group still recorded a net loss of S\$1.3m in 1HFY2021, this is mainly because of an S\$3.2m impairment loss for its disposal of HLH Agri R&D Pte Ltd. Excluding the one-off impairment, Hong Lai Huat would have recorded adjusted earnings of S\$1.9m.

Vote of confidence from major shareholders. The Management (Ong Family) is the major shareholder of Hong Lai Huat, with about a 47% stake in the Group, aligning their interests strongly with shareholders. As a sign of confidence in the Group, the Ong Family has previously raised their stake from 25% to more than 40% in the recent rights issue, injecting about S\$16m at S\$0.091/share in capital into the Group. The CEO, Dato Ong, has also continued to show his confidence in the prospects of the Group, with recent share purchase from the market at about S\$0.098/share, providing a psychological share price support for the Group.

HONG LAI HUAT GROUP LTD


Exhibit 1: Selected Balance Sheet Items Of Hong Lai Huat

As of 30 June 2021	S\$m	As% of total assets	Per share S\$	Comments
Cash	16.2	9.3%	0.031	
Completed development properties held for sale	18.0	10.3%	0.035	
Development properties	30.2	17.3%	0.058	
Right of use assets	64.8	37.1%	0.125	mainly leasehold land & improvements
	129.3	74.0%	0.250	

Source: Company

As at end of 30 June 2021, the Group has a strong net cash position of S\$10.2m, (~20% of current market cap). Despite investing in a new mixed use development, the Group's net cash position is expected to remain healthy following proceeds from the Group's recent restructuring and sale of hotel post 30 June 2021. In addition, the Group's balance sheet may also be bolstered by potential positive sales of its property developments in 2HFY2021 following the opening up of Cambodia's economy.

Exhibit 2: Cambodia-Singapore Agriculture Hub (Agri-Hub)



Development Zones Est GDV: USD 1 billion (Phase 1 development value)

Location

- ~60 mins drive away from Capital City, Phnom Penh (~100km away)
- Accessible by either National Road 4 or National Road 44.
- The highest peak of Cambodia (130m above sea level)
- Surrounded by various large-scale industrial and agricultural farms.

Land size

100,000,000 sqm (Approx. 1/7 size of Singapore)

Source: Company

Hong Lai Huat received official approval from the royal government of Cambodia in June 2021 to convert its agricultural land (100 million sqm) into mixed use development. With the approval, the Group intends to develop the land into a mega Cambodia-Singapore Agriculture Hub (Agri-Hub) which will significantly increase the intrinsic value of the land, which is currently held at cost in its balance sheet.

We understand that the development of Agri-Hub is expected to be a long-term project to be developed over more than 10 years, and is expected to set the foundation of growth for the Group. The development has been divided into 3 phases, and will include various infrastructure, industrial commercial and residential developments including renewable energy (such as solar power), warehouse and logistics, food processing factories, plantations, fisheries, hotels and residential housing.

To develop Agri-Hub, Hong Lai Huat intends to either sell or lease the land to developers or business owners, which will generate immediate income and cash flow to the Group. Alternatively, the Group are also in talks for joint ventures, where depending on the terms of the negotiation, Hong Lai Huat may contribute as land while its JV partner will contribute its expertise and monetary resources to develop and operate the new development at Agri-Hub.

In October 2021, the Group has signed a JV agreement with HSC Group (HSCG) for the exploration and mining of mineral resources in Agri-Hub. The JV is amid obtaining regulatory approval to commence mining operations, which is expected to add a stream of revenue to the Group in the next few years. We understand that based on the initial studies done, the mining site, which has a land size of 2 million sqm and is 60m deep, contains marble, which the JV can mine and sell it.

HSC Group is an established conglomerate in Cambodia with 8 major business segments, and holds over 20 global/regional franchises in Cambodia, including Burger King, Crystal Jade, Paris Baguette, and 100 plus. The Group also has a heavy equipment segment that provides services such as crawler excavators and wheel excavators, which we believe is expected to provide synergies to the joint operations for the mining. Coupled with the diverse businesses of HSC Group, we believe there may be further collaboration opportunities for Agri-Hub as it gets developed.

Exhibit 3: Ongoing Sales Contribution From D'Seaview & Royal Platinum

Projects	D'Seaview	Royal Platinum
Hong Lai Huat's stake	100%	50%
Location	Sihanouk Province, Cambodia	Toul Kork District, Phnom Penh, Cambodia
Type of Development	Mixed Development	Mixed Development
Land Area	9,818 sqm	8,221 sqm
Average selling price	USD 1,300 per sqm	USD 2,000 per sqm
% sold	85%	20%
Gross Development Value	USD 130 million	USD 220 million
Construction completion date	FY2020	Est 4QFY2023

Source: Company

While property sales have been affected due to COVID-19, we understand that the property development segment has rebounded strongly after the Cambodian government opened up the Kingdom and resume quarantine free travel for the fully vaccinated from 4QFY2021.

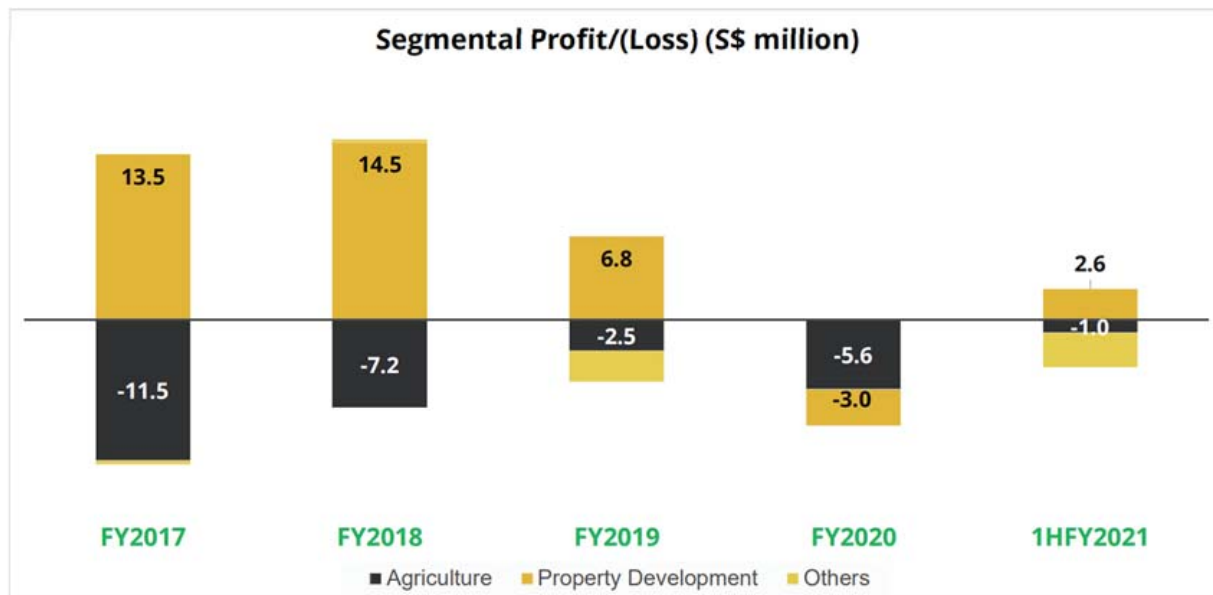
D'Seaview - This is the Group's first property development project in Cambodia. Construction for the project has been completed in FY2019-FY2020, with over 80% of the development sold. Currently, 40 of the residential units are tenanted with a rental yield of 8%, providing stable income to the Group.

Royal Platinum - This is the Group's second property development project in Cambodia and is a 50% joint venture with Royal Group of companies. It is currently under construction, and has reached 10th floor out of the total 28th floors as of Jan 2022.

Additionally, the Group has also secured its 3rd and 4th development project, with a mixed used freehold development to be launched in Phnom Penh, Cambodia and a JV development for a wholesale and distribution centre at Sihanoukville, Cambodia, which will provide earnings visibility for the Group in the next few years.

Both projects are currently undergoing feasibility studies and are in designing phases. Based on preliminary figures, the total gross development value of both projects is about US\$400m.

Exhibit 4: Business Segments Of Hong Lai Huat



Source: Company

Growth drivers for Hong Lai Huat. In summary, the profit growth drivers for the Group are expected to be:- (i) Contributions from progressive sales recognition of D’Seaview, Royal Platinum, new third project and new fourth project launch; (ii) Recurring income from leasing of completed properties and; (iii) Diversified income streams from Agri-Hub.

Macro outlook for property market in Cambodia. While the prices of condominiums have trended down during COVID-19, according to Cambodia Deputy Prime Minister and Minister of Economy and Finance, Aun Pornmoniroth, the real estate sector in Cambodia is forecasted to recover at a rate of 2.4% and 4.8% in 2021 and 2022 respectively as domestic investment and demand in affordable housing continues to show strong growth.

The impending rebound in the Cambodian property market is attributable to the country’s easing Covid-19 restrictions and a potential spike in foreign investment amid easing travel measures. President of Cambodian Valuers and Estate Agents Association (CVEA) Chrek Soknim has projected that the real estate market in Cambodia will see considerable growth in 2022, especially after Chinese New Year, with a 30%–40% increase in foreign investors expected.

Stabilising Covid-19 situation in Cambodia. According to Pornmoniroth, Cambodia has already introduced 10 rounds of highly effective intervention measures, aiming at stabilising businesses and livelihoods of the people, especially workers-employees, poor families, and those who are most vulnerable to the impact of Covid-19.

The 10th round of relief measures, released end October 2021, aimed to mitigate the impact of COVID-19 crisis on social and economic sectors and to support and restore businesses amid the gradual recovery of economic activities. Such measures include the extension of tax holidays for airline and tourism-related businesses till end of 2021.

The number of Covid-19 cases within the construction and property sector has since dropped and the government has announced the country's reopening on 1 Nov 2021.

Investment risks pertaining to Hong Lai Huat. We note that Hong Lai Huat does not have a good financial track record, if one were to use its FY18 – FY20 period as a guide which saw revenue in FY20 drop substantially while it also experienced net losses. Additionally, sovereign risks could also be a sticking point as investors may be concerned with issues over political stability in Cambodia. Lastly, the lack of any dividends given by Hong Lai Huat may also shun investors whom are looking to invest in dividend yielding property stocks.

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