

Singapore



# SHS Holdings Ltd

## Eyeing New Zealand for prefab growth

### NON RATED

Current price:	S\$0.20
Consensus Tgt Price:	S\$0.24
Up/downside:	N/A
Reuters:	SEEH.SI
Bloomberg:	SHS SP
Market cap:	US\$99.71m S\$135.0m
Average daily turnover:	US\$0.02m S\$0.02m
Current shares o/s:	685.1m
Free float:	47.0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.5	-6.2	-8.4
Relative (%)	-3.4	-12.4	2.1

Major shareholders	% held
Kiat Teng Choon	28.3
Ng Han Kok	17.4
Alexander Stone	6.1

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- SHS is supplying prefabricated modules for Cosa Hotel, New Zealand's first modular-built hotel, and anticipates rising demand for modular projects.
- Management expects its new 36,000 sq m prefab plant to be up and running by year-end, adding to its existing 8,000 sq m factory.
- The stock is now trading at 0.8x FY18F P/BV, 9.2x FY19F P/E based on Bloomberg consensus estimates.

### Second prefab plant (4x larger than the first) to start by year-end

We visited TLC Modular's (60%-owned subsidiary of SHS) prefabrication (prefab) facility in Vietnam, located on the waterfront in Vung Tau City. TLC Modular's key capabilities are modular construction or pre-finished volumetric construction (PPVC), which involves the design and building of factory-produced, pre-engineered building units that are delivered and assembled on-site. Its existing factory measures 8,000 sq m and management expects a new 36,000 sq m factory to be up and running by year-end.

### Anticipates growing demand for modular projects in New Zealand

Amid the housing crisis in New Zealand – figures released by the nation's Ministry of Business, Innovation and Employment (MBIE) revealed a housing shortfall of 71,000 dwellings in 2017 – SHS believes it can tap this opportunity by exporting its PPVC modules to the New Zealand market. Management commented that SHS is particularly suited to the New Zealand market, given the company's modular construction capabilities, lower cost base and ability to price itself below rival firms.

### Projects in hand

SHS is undertaking the modular construction of Cosa Hotel (5-storey, 88-room hotel) in New Zealand, which it expects to deliver in 1H19F. In 2018, the group was awarded two modular construction contracts worth NZ\$30m (S\$28m) to build a serviced apartment comprising 217 modules and a hotel consisting of 20 modular units in the country.

### Diversified businesses

Apart from its modular construction business, SHS is also involved in the following business segments: 1) structural steel engineering (together with prefab modular business forms 68% of FY17 revenue), 2) corrosion prevention services (26%) for the oil and gas industry in Singapore, 3) solar energy (3%), comprising engineering and construction of solar power projects in Singapore and Bangladesh, and 4) other (3%)

### Trading at 0.8x FY18F P/BV, 9x FY19F P/E

SHS is currently trading at 9.2x FY19F P/E and 0.8x FY18F P/BV (c.30% below its long-term average of 1.1x P/BV), based on Bloomberg consensus estimates. The group's 9MFY18 results showed net losses. As at end-Sep 2018, SHS was in a S\$16m net cash position.

FYE Dec (S\$m)	FY15	FY16	FY17	9MFY17	9MFY18
Revenue	62.7	56.1	37.7	25.7	36.1
Operating EBITDA	0.6	7.0	(15.9)	(2.8)	(1.4)
Recurring Net Profit	9.0	11.8	(18.2)	(4.4)	(3.7)
Core EPS (S cents)	1.5	0.7	(2.7)	(0.7)	(0.5)
Core EPS Growth (%)		(54.4)	nm		nm
FD Core P/E^ (x)	13.4	29.4	na	na	na
DPS (S cents)	0.3	0.3	0.2	-	-
Dividend Yield (%)	1.6	1.3	1.0	-	-
Net Gearing (%)	net cash				
P/BV (x)	0.6	0.6	0.7	0.6	0.7
Recurring ROE^ (%)	4.1	5.4	(9.0)	(2.8)	(2.5)

^Annualised P/E and ROE for 3M data

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## Eyeing New Zealand for prefab growth

### Expanding prefab capacity

#### New plant could boost capacity by four times ➤

TLC Modular has an existing fabrication facility on the waterfront of the Dong Xuyen Industrial Tax-Free Zone in Vung Tau City, 120km east of Ho Chi Minh City, featuring 8,800 sq m of covered factory production and storage areas. The new factory will be built at Phu My II Industrial Park, 35km away from the existing plant, with c.36,000 sq m covered factory and warehouses. According to management, the production capacity of TLC Modular’s existing plant is 300 modules a year and this could be boosted to 1,500 modules a year when the second prefab plant starts operations.



### More modular houses could drive sales growth

#### New Zealand shoring up housing supply, pushing for prefab homes ➤

In 2018, the New Zealand government embarked on an ambitious programme called KiwiBuild that aims to deliver 100,000 quality, affordable homes for first homebuyers over the next decade. 50,000 of these homes will be located in Auckland, to help meet the growing demand for housing stock in New Zealand’s biggest city. The Housing Minister, Phil Twyford, said in 2018 that over half of the 100,000 KiwiBuild homes will be prefabricated. In a May 2018 Parliament sitting, Twyford stated the government would build 16,000 homes in the first three years of the KiwiBuild programme – 1,000 in the first year, 5,000 in the second and 10,000 in the third year.

According to a Stuff.co.nz news report, the New Zealand government has invited both local and overseas companies to set up or expand off-site manufacturing facilities to help deliver homes under its KiwiBuild housing programme. SHS’s management stated the group intends to tap this market opportunity and believes it can scale up its modular construction activity; hence, it plans to establish the second prefab plant to meet the anticipated demand from New Zealand.

### Building-cost advantage for New Zealand's first modular-built hotel >

According to a TrueCommercial news report, the 88-room, 3,555 sq m Cosa Hotel in Christchurch is the first modular-built hotel in New Zealand. Built by TLC Modular, the hotel was shipped in 17-metre-long double-room and corridor modules over a span of 18 days. Although shipping comprised about 7% of the building cost, TLC Modular still achieved a build cost (NZ\$12.5m) that was 10-20% cheaper than a traditional commercial build. Cosa Hotel's total build cost of NZ\$12.5m implies build cost c.NZ\$3,500 per sq m.

### More modular projects in the pipeline >

In May 2018, SHS secured two contracts amounting to NZ\$30m through its TLC Modular subsidiary for the modular construction of a serviced apartment project and a hotel on New Zealand's south island. The first contract will involve the development of a 79-key serviced apartment comprising 217 modules in Queenstown. The second contract is for the supply of 20 modular units for the first phase of Godley Hotel's refurbishment in Tekapo, New Zealand.

Figure 3: Exterior of PPVC modules under construction in TLC Modular's factory (as at 22 Jan 2019)



SOURCES: CGS-CIMB RESEARCH

Figure 4: Interior of a showcase hotel room module done by TLC Modular (as at 22 Jan 2019)



SOURCES: CGS-CIMB RESEARCH

### Typical cost structure and margins >

According to management, the typical cost structure of a prefab construction primarily comprises installation-on-site cost (30-40% of project value), followed by steel cost (20-30%), labour cost (10-15%) and freight cost (7-10%). Installation-on-site cost is incurred in NZ\$, while the rest of the costs are largely reflected in the local currency (VND). The company believes gross margin of 20% is achievable for its prefab projects in New Zealand. The average small-build cost in New Zealand was NZ\$3,500-4,000 per sq m in 2017, according to a Stuff.co.nz news report.

### Competitive landscape >

There are 26 prefabrication companies in New Zealand, mostly focused on small-scale residential builds and working with wooden framing, according to the TrueCommercial news site. SHS's management believes it is one of the few licensed companies in New Zealand that have prefab capabilities in concrete and steel modular structures, enabling it to stand out from the competition.

## Risks and concerns

### Uncertainty over capacity and construction challenges ➤

According to a Rider Levett Bucknall (RLB) report titled “New Zealand Trends in Property and Construction Q4 2018” released on 5 Nov 2018, construction demand is likely to remain robust as there is strong demand for residential housing in New Zealand. One key concern raised in the report is whether there is enough capacity to realise the New Zealand government’s KiwiBuild target of building 100,000 dwellings over the next decade. Challenges faced by the New Zealand construction sector include labour shortages, low operating margins and uncertainty of cash flows, particularly for smaller and mid-sized firms.

### Possible dilution from warrants ➤

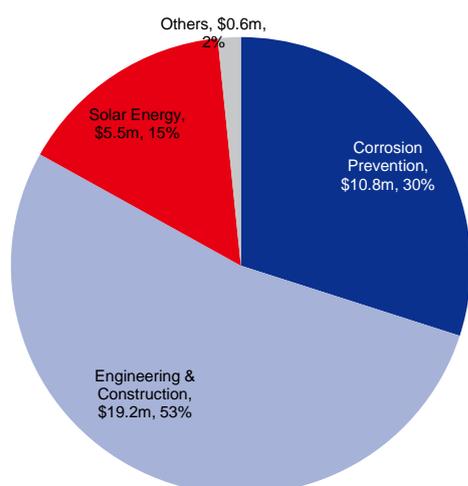
SHS issued 304m warrants in Dec 2014 at an exercise price of S\$0.20. The warrants are due to expire on 17 Dec 2019. As at end-Sep 2018, unissued shares under warrants numbered about 218.6m, accounting for c.32% of the 685m outstanding share base.

**Figure 5: List of current and completed modular projects undertaken by SHS (as at 29 Jan 2019)**

Project Name	Location	Description	End completion date
<b>Current projects</b>			
Cosa Hotel	Christchurch, New Zealand	- 88 room business style hotel, 5 levels - with ground floor café and retail	4Q18
South Beach Apartments	South Beach, Freemantle, Western Australia	- 30 apartments across 1,2 and 3 bedroom configurations	2Q19F
Lendlease Paya Lebar Quarters - 663 Bathroom Pods	Singapore	- Manufacture and supply of prefabricated bathroom units (PBUs) -	
<b>Completed projects</b>			
Holiday Inn Express - 230 Bathroom Pods	Singapore	- Manufacture and supply of PBUs	2016
Premier Inn - 297 Bathroom Pods	Singapore	- Manufacture and supply of PBUs	2015
Minpac Camps	Queensland, Australia	- mining camp with various modular accomodation facilities	2013

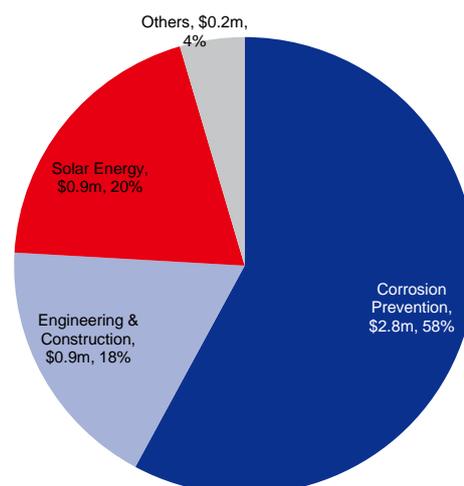
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 6: 9M18 revenue breakdown by segment**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 7: 9M18 gross profit breakdown by segment**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Historical P/BV



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 9: SHS 12-month forward P/E (2011-16), based on Bloomberg consensus estimates



Note: 2017-18 omitted from chart above as SHS was net loss-making

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 10: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)	Recurring ROE (%)	Dividend Yield (%)
						CY18F	CY19F		CY18F	CY18F	CY18F
SHS Holdings Ltd	SHS SP	Not rated	0.20	na	98	na	9.2	na	0.77	-3.5%	1.0%
<b>Prefab</b>											
Soilbuild Construction Group I	SOIL SP	Not rated	0.10	na	49	na	na	na	na	na	na
BBR Holdings S Ltd	BBR SP	Not rated	0.18	na	42	na	na	na	na	na	na
Tiong Seng Holdings Ltd	TSNG SP	Not rated	0.27	na	89	na	na	na	na	na	na
<b>Steel structures</b>											
T T J Holdings Ltd	TTJ SP	Not rated	0.29	na	75	11.4	na	na	na	na	na
Yongnam Holdings	YNH SP	ADD	0.18	0.40	68	na	21.9	na	0.36	-13.1%	0.0%
<b>Simple average (excluding SHS holdings)</b>						<b>11.4</b>	<b>21.9</b>	<b>na</b>	<b>0.36</b>	<b>-13.1%</b>	<b>0.0%</b>

Note: All forecasts for Not rated companies are based on Bloomberg consensus estimates.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG (AS AT 29 JAN 2019)

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<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2018		
758 companies under coverage for quarter ended on 31 December 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.2%	4.2%
Hold	25.1%	2.1%
Reduce	13.7%	0.4%

### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

**ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent,

Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD\*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

\* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

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<b>Stock Ratings</b>	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
<b>Sector Ratings</b>	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
<b>Country Ratings</b>	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.