

Company Initiation Report

SHS Holdings Ltd

Company Results

Dasin Retail Trust

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SHS Holdings Ltd

Exporting construction technology

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Phillip Securities Research Pte Ltd

28 May 2018

SHS Holdings Ltd (BUY, TP:S\$0.29, Last: S\$0.235)

Background:

SHS Holdings Ltd (SHS) generates revenue from two existing businesses:

- **Corrosion prevention** of marine vessels and other steel structures;
- **Structural steel** for buildings.

We expect future growth to come from two new businesses.

- **Modular construction** under its subsidiary based in Vietnam, TLC Modular. It manufactures steel prefabricated prefinished volumetric construction (PPVC) and prefabricated bathroom unit (PBU).
- A **solar project** in Bangladesh under subsidiary Sinenergy.

Figure 1: PBU



Source: BCA

Figure 2: PPVC unit at a construction site



Source: TLC Modular

Key Investment Thesis:

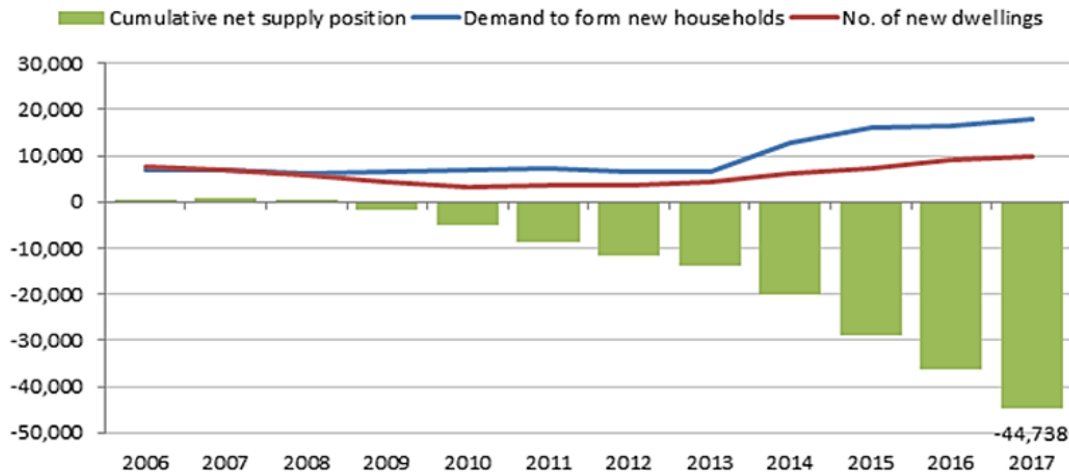
1. Modular business boosted by strong demand in New Zealand
2. Recurring revenue from solar projects
3. Recovery of construction and oil & gas sector to contribute to core revenues

TLC Modular

- Modular construction is a process whereby a building is constructed 90% in a controlled factory environment then transported on-site to be pieced together into a building.

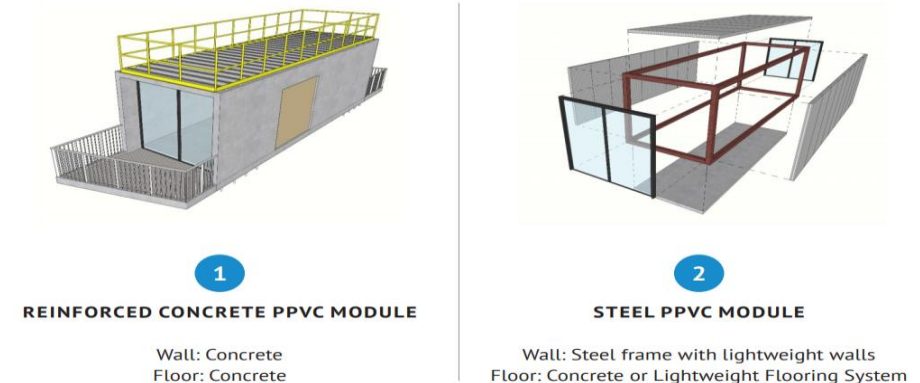
- a) We expect strong demand for PPVC products in New Zealand due to the *huge shortage in housing*
- b) TLC Modular mainly constructs steel PPVC which makes it easily exportable alongside with many advantages

Figure 3: Demand vs Supply in Auckland



Source: MBIE

Figure 4: Two Types of PPVC



Source: BCA

SHS Holdings Ltd – 1a) Reasons for the shortfall in housing

Reasons for housing shortages:

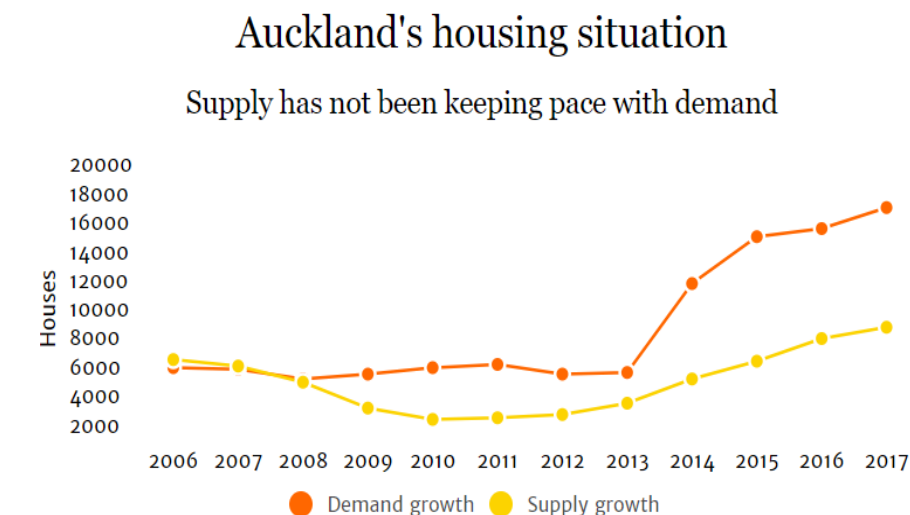
1. Halt in construction
2. Shortage of labour
3. Higher costs of construction
4. Increase in population

Figure 6: New Zealand public housing by region

Region	Number of public housing units at 03.09.17	2020 Public Housing Target	Increase by June 2020	Change
Auckland	30,249	33,803	+3,554	+11.8%
Wellington	8,533	9,060	+527	+6.2%
Canterbury	7,379	7,552	+173	+2.3%
Others	20,206	21,585	+1,419	+6.8%
Total NZ	66,367	72,000	+5,673	+8.6%

Source: New Zealand Ministry of Social Development

Figure 5: Auckland Housing demand vs supply



SHS Holdings Ltd – 1b) Understanding the value and the advantages of PPVC

Understanding the value of PPVC to the NZ market:

- 1. Speed
- 2. Lower overall costs
- 3. Better structural integrity

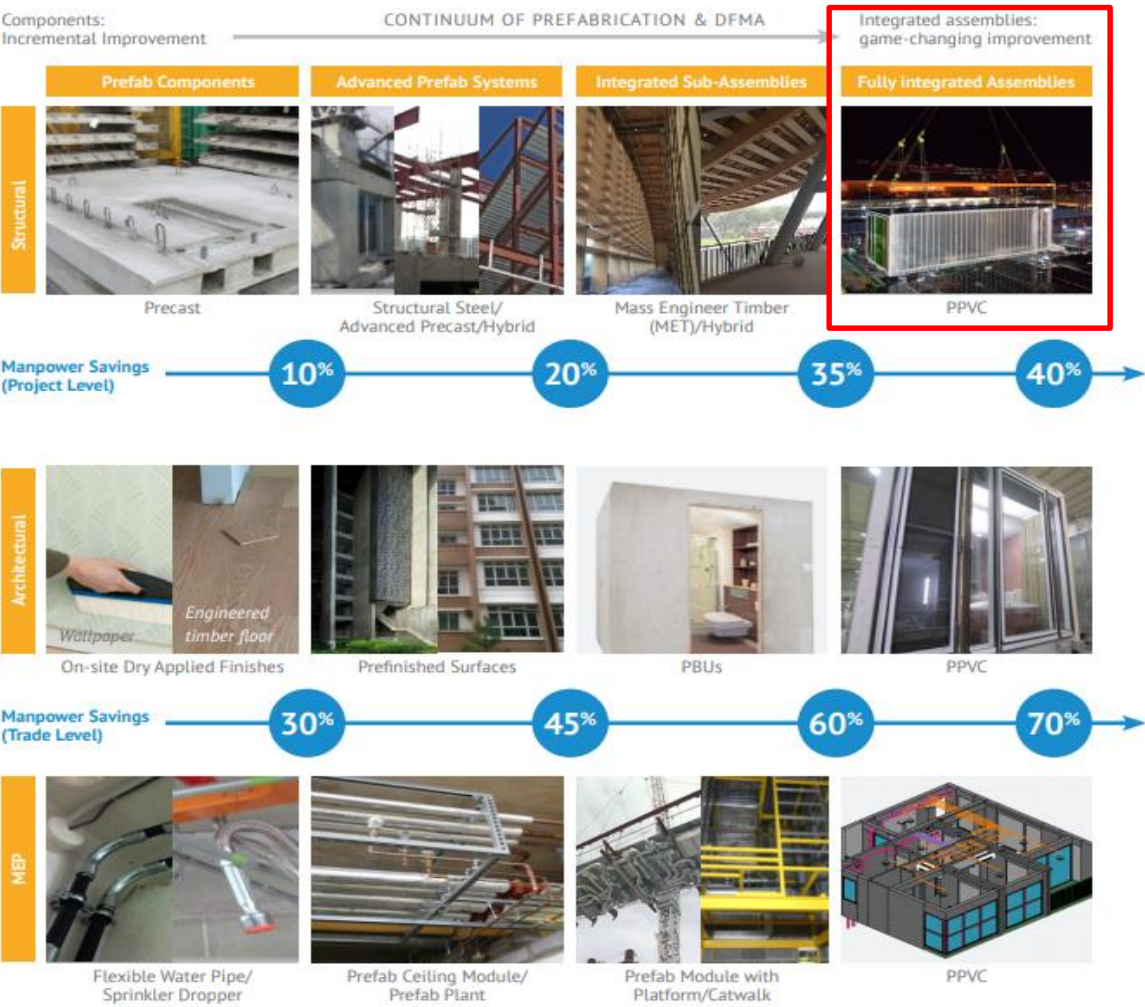
Figure 7: Advantages of PPVC

PPVC vs Traditional construction

- 1. Increased safety
- 2. 40% Faster
- 3. Easily transportable
- 4. Better quality control
- 5. Better construction environment
- 6. Design flexibility
- 7. Higher quality and stronger construction
- 8. Reduction in environmental impact and waste

Source: PSR

Figure 6: Manpower savings of PPVC



Source: BCA

SHS Holdings Ltd – Current modular projects

Figure 8: Cosa Hotel in Christchurch



Source: Company

Figure 9: South Beach Apartments Western Australia



Source: Company

SHS Holdings Ltd – 2) Recurring revenue from Solar project

Sinenergy

- Secured construction project for a 50MW solar farm in Bangladesh
- Sale of electricity to Bangladesh development board for 20 years at US\$0.17/kWh
- Expect project to generate yearly revenue and earnings S\$14mn and S\$4mn

Figure 10: Key Assumptions

Bangladesh Project	
Cost of Capital	10%
Internal Rate of Return	15.70%
Interest rate	7%
Decline per year	-1%
Operating hrs (Sunlight per day)	4.75 hrs
Tenure	20 Yrs

Source: PSR

Figure 11: Solar project



Source: Company

SHS Holdings Ltd – 3) Recovery of construction and oil & gas sector to contribute to core revenues

- The recovery in oil prices will positively impact the group as the corrosion prevention segment services the marine, oil & gas sector (Crude oil: 4 year high @ US\$72.54/bbl)
- We observe a rebound in overall construction contracts awarded in Singapore this will be supportive for the structural steel business

Figure 12: SMU Law Library



Source: SMU, Company

Figure 13: Corrosion prevention



Source: Company

SHS Holdings Ltd – Valuation

- Target price S\$0.29
- We are pegging SHS to other construction companies with prefab and structural steel business in Singapore. Our target price is based on 10X FY19e PE. We gave a 10% discount on SHS to its peers (figure 14) as we take a more conservative approach in SHS's valuation.

Figure 14: Sector Valuations of construction peers

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local	Market Cap (\$\$ m)	PE FY17	P/BV FY17	Dividend Yield	ROE FY17	EV/ EBITDA	EBITDA Margin	EV (\$\$ m)
Lian Beng Group Ltd	-2.2%	-10.1%	-10.1%	0.60	297.3	5.6	0.5	1.7%	8.5%	16.3	20.3%	931.0
TA Corp Ltd	-9.3%	2.1%	2.1%	0.23	115.0	N.A	0.6	4.3%	-9.8%	-33.7	-5.5%	395.0
OKP Holdings Ltd	2.9%	4.4%	4.4%	0.34	104.9	8.2	0.9	2.1%	10.7%	1.5	12.2%	21.2
<u>Prefab</u>												
Soil Build Construction	-11.0%	-3.8%	-3.8%	0.15	103.6	N.A	1.2	3.2%	-7.0%	-17.0	-2.6%	87.0
Chip Eng Seng Corp Ltd	4.2%	1.0%	1.0%	0.94	583.8	16.4	0.8	4.3%	4.6%	18.2	12.1%	1893.1
BBR Holdings	0.0%	-13.7%	-13.7%	0.22	70.9	10.0	0.5	1.8%	5.3%	31.6	2.6%	142.0
Tiong Seng Holdings	-3.8%	1.3%	1.3%	0.40	178.0	5.8	0.6	3.8%	11.4%	3.6	8.1%	213.2
<u>Structural Steel</u>												
TTJ Holdings	-12.9%	-1.6%	-1.6%	0.33	115.3	10.5	0.9	2.1%	6.3%	4.4	16.8%	60.8
Yong Nam Holdings	-1.7%	-6.3%	-6.3%	0.31	162.0	N.A	0.6	0.0%	-5.3%	25.3	3.1%	243.2
	-1.4%	-2.3%	-2.3%	0.57	1,731	11.2	0.7	2.9%	3.9%	10.1	10.1%	885.7
SHS Holdings	2.3%	0.0%	0.0%	0.22	147.3	N.A	0.7	1.2%	-8.7%	-7.5	-42.9%	121.1

Source: Bloomberg, PSR

Dasin Retail Trust

Our visit to Zhongshan

+ A pertinent question answered

Phillip Research Team

Phillip Securities Research Pte Ltd

28 May 2018

Dasin Retail Trust

(BUY (Maintained), TP: S\$0.97, Last: S\$0.87)

SGD ('000)	1Q18	1Q17	YoY (%)	Comments
Gross Revenue	18,495	9,982	85%	Contribution from Shiqi Metro Mall, which was acquired on 19 June 2017. Positive effect from recognising future rent escalations on a straight-line basis.
Net Property Income	14,929	8,036	86%	
Net Income	12,101	1,195	n.m.	
Distributable profit	5,345	3,687	45%	
DPU (Cents)	1.83	1.49	23%	

+ Higher reversions from renewal of master lease

- 10-year renewal of the Xiaolan Master Lease Agreement for Superior City Department Store on 26 Sep 2017 was a key contributor to the positive rental reversions.

- Higher amount of funds retained for future interest repayment

- Other adjustments of S\$2.7mn was recorded in 1Q18. This item was previously not modelled into our forecast.

Maintain BUY with lower target price of S\$0.97

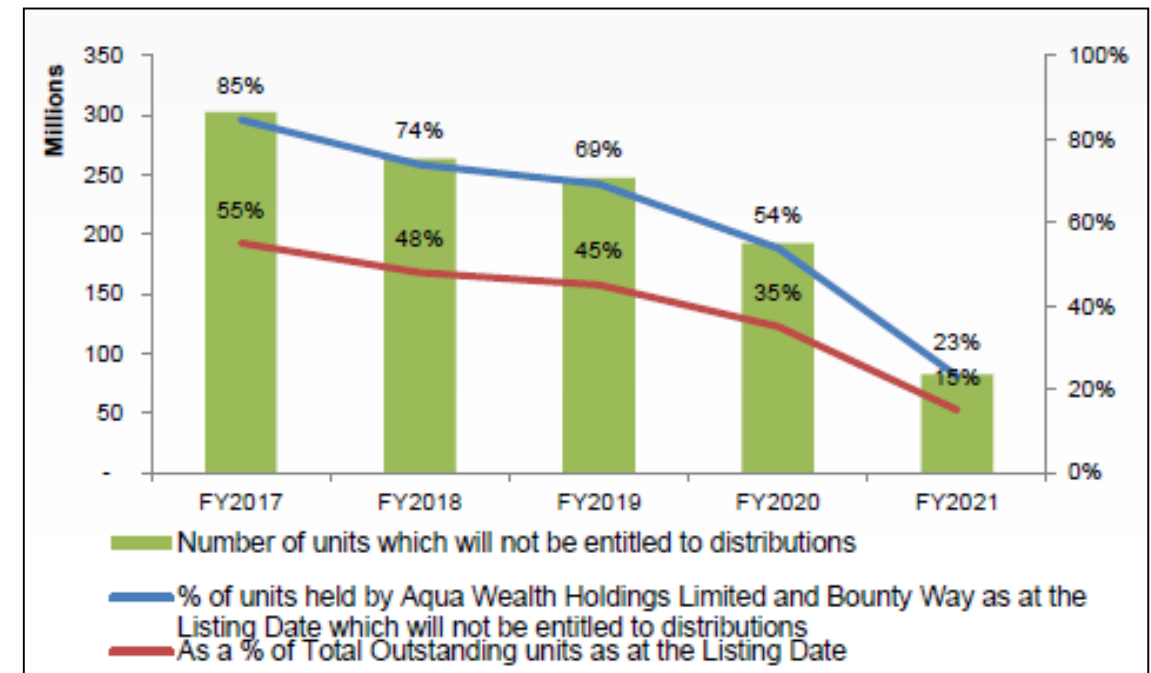
- We narrowed down our DPU forecast to factor in increased distribution adjustments for funds set aside for future repayment of interest and related costs of the loan facilities – our initial forecast had not factored in such an adjustment.
- Maintain BUY with a lower target price of S\$0.97 (prev S\$0.98).

Dasin Retail Trust

(BUY (Maintained), TP: S\$0.97, Last: S\$0.87)

A pertinent question – Will Dasin be able to ride out the removal of income support after FY2021?

- Dasin's two biggest shareholders, Aqua Wealth and Bounty Way, have waived their entitlement to dividends for five years from FY17 to FY21.
- FY2022 will be the first year without income support.
- Income support to smoothen out gestation periods for the two growth malls, Dasin E-Colour and Ocean Metro.
- Our forecast – purely based on organic growth, not accounting for any acquisitions/disposals – shows that Dasin's distributable profit is expected to sustain the removal in income support, short of some c.6%, which can potentially be compensated for by any acquisitions made within this same time frame.
- Our estimates have taken into account a baseline rental CAGR of 6% from FY17 to FY22e.



Source: Company

NOTE: The waiver by Aqua Wealth and Bounty Way starts at 85% of total Units at FY17 and gradually declines to 23% by FY21. There is no income support from FY22 onwards.

Dasin Retail Trust

(BUY (Maintained), TP: S\$0.97, Last: S\$0.87)

Initial IPO portfolio

Acquired in June 2017

Current portfolio

Xiaolan Metro mall



Ocean Metro Mall



Dasin E-Colour



Shiqi Metro Mall



**Recap of Dasin's
current portfolio
+ ROFR pipeline**

ROFR pipeline

**20 properties over
4 cities**

Total GFA can quadruple
if all properties are
injected into portfolio

- ★ Dasin Retail Trust Portfolio
- Purchase option on Doumen Metro Mall
- 12 Completed ROFR Properties
- 7 ROFR Properties Under Development



Dasin Retail Trust

(BUY (Maintained), TP: S\$0.97, Last: S\$0.87)

Site Visit to Zhongshan

Dasin's Sponsor, Dasin Real Estate Co, the retail market leader in Zhongshan

- Total assets represent more than 50% of net lettable retail space in Zhongshan.
- Sponsor has been asked to manage malls/retail outlets for other organizations, including competitors and local government

Malls are well-frequented through weekdays/weekends

- Healthy footfall for all four malls and the two developed ROFR (out of 20 ROFR – 13 developed) malls visited.
- 100% occupancy – no boarded-up units or frictional period after lease expiries.

Active tenant engagement and well-planned strategies to capture shopper traffic

- Quality tenant profile includes McDonald's, Starbucks, Watson, Chow Tai Fook.
- Malls capitalize on events to draw out promotions and events to attract footfall.



Dasin Retail Trust

(BUY (Maintained), TP: S\$0.97, Last: S\$0.87)



OUTLOOK

- Inorganic growth will be through its ready pipeline of 20 properties
- Robust growth of Zhongshan's purchasing power with urban disposable income per capita growing 8.9% YoY in 2017.
- Expected opening of the Hong Kong-Zhuhai-Macau bridge in July 2018, which will create some spillover of consumption spending into Zhongshan and in the longer term, potentially raise rental rates and property valuations for Dasin.

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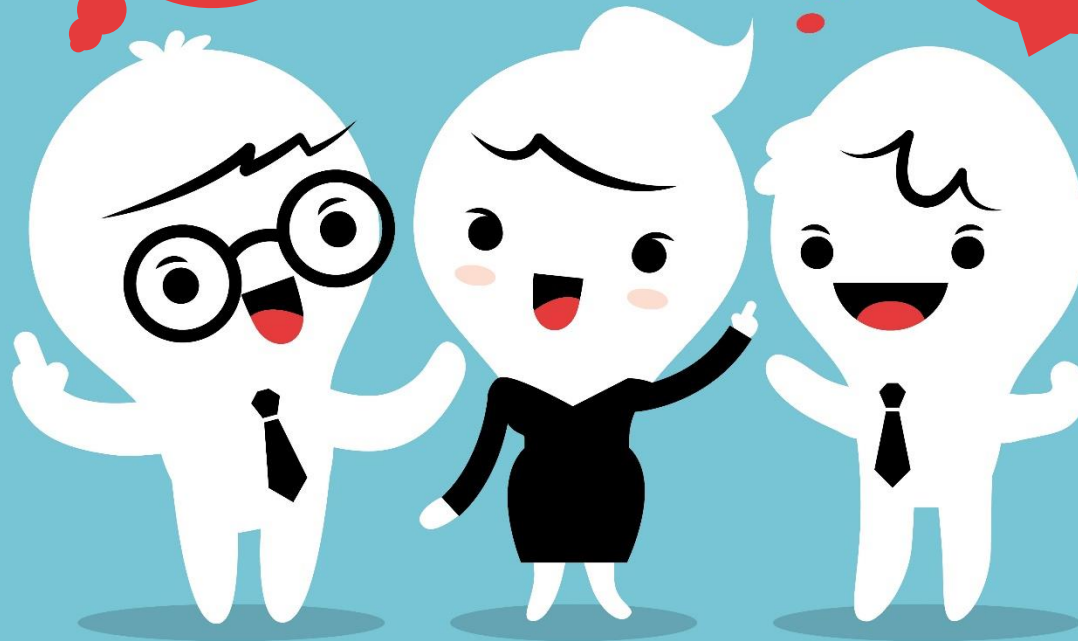
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