

Singapore Company Guide

Roxy-Pacific Holdings

Version 6 | Bloomberg: ROXY SP | Reuters: RXYP.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Aug 2019

HOLD

Last Traded Price (1 Aug 2019): S\$0.39 (STI : 3,291.75)

Price Target 12-mth: S\$0.39 (0% upside)

Analyst

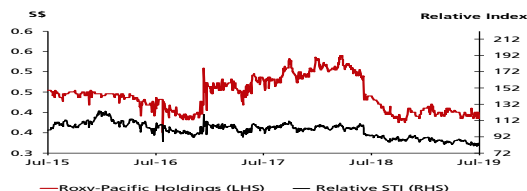
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What's New

- 1H19 net profit fell 27% y-o-y, mainly due to absence of fair value gains recognised in 1H18
- 1H19 PBT (ex-FV) would have almost doubled y-o-y supported by settlement of Australian residential
- Launched 5 out of 6 projects YTD with overall take-up rate of 16%
- Declared interim dividend of 0.195 Scts, flat y-o-y

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2017A	2018A	2019F	2020F
Revenue	247	133	336	362
EBITDA	42.6	42.0	80.2	92.8
Pre-tax Profit	47.8	28.3	53.9	65.5
Net Profit	30.5	23.9	38.3	40.0
Net Pft (Pre Ex.)	7.59	20.0	38.3	40.0
Net Pft Gth (Pre-ex) (%)	(77.3)	163.2	91.8	4.4
EPS (S cts)	2.56	1.82	2.92	3.05
EPS Pre Ex. (S cts)	0.64	1.52	2.92	3.05
EPS Gth Pre Ex (%)	(77)	139	92	4
Diluted EPS (S cts)	2.56	1.82	2.92	3.05
Net DPS (S cts)	0.98	0.73	0.73	0.76
BV Per Share (S cts)	42.3	38.0	40.2	42.5
PE (X)	15.2	21.4	13.4	12.8
PE Pre Ex. (X)	61.3	25.6	13.4	12.8
P/Cash Flow (X)	nm	nm	nm	11.7
EV/EBITDA (X)	23.9	30.2	17.0	14.7
Net Div Yield (%)	2.5	1.9	1.9	2.0
P/Book Value (X)	0.9	1.0	1.0	0.9
Net Debt/Equity (X)	1.1	1.5	1.6	1.4
ROAE (%)	6.1	4.8	7.5	7.4
Earnings Rev (%)			0	0
Consensus EPS (S cts)			2.90	3.10
Other Broker Recs:		B: 0	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Headwinds remain in sight

Maintain HOLD; TP of S\$0.39. We maintain our HOLD rating on Roxy and TP of S\$0.39, based on a 55% discount to RNAV.

While we believe the potential headwinds from new property measures have been substantially priced in, we remain neutral and see limited catalysts for the stock and sector given a soft market sentiment.

Where we differ: Negative sentiment continues to weigh on property sales. Despite the decent sales take-up rates for its property launches thus far, with c.500 units launched YTD and overall take-up rates of 16%, we believe there could be limited positive catalysts given the softening buyer sentiment.

Potential catalysts: Property sales to remain strong despite recent cooling measures; building up of recurring income.

1H19 results supported by settlement of Australia project, The Hensley. 1H19 net profit fell 27% y-o-y to S\$9m, mainly due to the absence of fair value gains recognised in 1H18, offset by the recognition of the settlement of The Hensley project in Australia. Key highlights: i) launched 5 out of 6 projects with overall take-up rate of 16%, ii) unrecognised sales stood at S\$621m mainly from Australia and Singapore, iii) acquired first Japan retail property at Ginza with potential positive reversionary in 2-3 years.

Valuation:

Maintain HOLD rating. Our TP of S\$0.39 is based on a 55% discount to RNAV.

Key Risks to Our View:

i) Slower take-up rates, ii) Government regulates more to manage the Singapore property market, iii) AUD/NZD/JPY forex fluctuations, iv) Settlement risks of Australia projects, and v) Acquisitions of less-desirable investment properties.

At A Glance

Issued Capital (m shrs)	1,304
Mkt. Cap (S\$m/US\$m)	509 / 369
Major Shareholders (%)	
Kian Lam Investment Pte Ltd	39.3
Teo Hong Lim	11.9
Sen Lee Development Private Ltd	11.2
Free Float (%)	31.3
3m Avg. Daily Val (US\$m)	0.04

ICB Industry : Financials / Real Estate



Live more, Bank less

Roxy-Pacific Holdings

WHAT'S NEW

Headwinds remain in sight

1H19 net profit fell 27% y-o-y mainly due to the absence of fair value gains of asset divested in FY18 offset by settlement of Australia project. Roxy's 1H19 net profit fell 27% y-o-y to S\$9m, 24% of our FY19F estimates, mainly due to the absence of fair value gains recognised from 117 Clarence Street, with the SPA agreement to sell the office building signed on 25 June 2018 and higher show flat expenses of S\$4.2m (net of tax) with five property launches YTD. Excluding the fair value gains of S\$9.9m, 1H19 PBT would have increased 95% y-o-y to S\$11.7m.

1H19 revenue grew 68% y-o-y to S\$140m, largely from development properties which more than doubled following the settlement of The Hensley project in Australia largely recorded in 1Q19.

1H19 adjusted EBITDA fell 4% y-o-y to S\$28m. Excluding the fair value gains from 117 Clarence Street, 1H19 adjusted EBITDA would have grown 44% y-o-y mainly supported by recognition of the settlement of The Hensley project in Australia.

1H19 gross profit margin contracted to 27% from 33% in 1H18, due to (i) lower margins of 20% on its development properties (vs 22% in 1H18), and (ii) change in portfolio mix which is now skewed towards development properties following the lumpy recognition of development projects, which have lower gross profit margins. However, we note that margins from hotel properties fell 3ppts from lower average room rate while investment properties improved 17ppts. This was due to the reclassification of lease payable on NZI Centre from cost of sales to other operating expenses under SFRS (I) 16 Leases effective 1 January 2019. 1H19 Adjusted EBITDA from investment properties (ex-fair value gains) grew 45% y-o-y.

Roxy has declared an interim dividend of 0.195 Scts per share, flat y-o-y.

Unrecognised sales stood at S\$621m as at 2Q19. As at 2Q19, unrecognised sales stood at S\$621m (from S\$548m as at 1Q19), to be recognised from 2Q19-FY23. The unrecognised sales comprise largely those from Singapore (46%) following the multiple new launches YTD and its Australia properties (46%) which are expected to be completed in 2020/2021.

Take-up rates of three property projects launched YTD impacted by soft market sentiment. Roxy launched five properties YTD out of its target of six property launches in FY19, before the ghost festival month. Roxy managed to achieve an overall sales take-up rate of 16% from these new projects. Given the soft market sentiment, the sales rate of all ongoing projects has been decent with most projects achieving more than 15% sales take-up rates in a few months except two projects. We believe the company should continuously move sales through creative strategies. Roxy has one remaining project, NEU at Novena, which is expected to be launched in 2H19.

Noku Phuket targets to open in FY21. The opening of its hotel in Phuket has been further delayed to FY21 from FY20 previously.

First acquisition of Japan retail property at Ginza. In June 2019, the group made its first acquisition of a Japan retail property at the heart of Ginza, together with other investors including Tong Eng Group. This further strengthens its recurring income portfolio. The building is currently under-rented with positive reversionary opportunity in 2-3 years' time.

Maintain HOLD; TP of S\$0.39. We maintain our HOLD rating on Roxy and TP of S\$0.39, based on a 55% discount to RNAV. While we believe the potential headwinds from new property measures have been substantially priced in, we remain neutral and see limited catalysts for the stock and sector given a soft market sentiment.

Roxy-Pacific Holdings
Quarterly / Interim Income Statement (S\$m)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	37.0	88.5	51.4	38.9	(42.0)
Cost of Goods Sold	(24.1)	(67.0)	(35.2)	46.1	(47.4)
Gross Profit	12.9	21.6	16.2	25.5	(24.9)
Other Oper. (Exp)/Inc	(8.6)	(9.0)	(7.6)	(11.8)	(16.2)
Operating Profit	4.33	12.5	8.62	99.1	(31.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	5.10	(0.1)	2.19	(57.1)	nm
Net Interest (Exp)/Inc	(4.7)	(5.6)	(5.8)	(24.3)	(3.3)
Exceptional Gain/(Loss)	2.58	0.42	(0.4)	nm	nm
Pre-tax Profit	7.35	7.25	4.64	(36.9)	(36.0)
Tax	(2.2)	(2.4)	(0.5)	(75.6)	(77.2)
Minority Interest	(0.1)	0.46	0.12	nm	(74.4)
Net Profit	5.03	5.33	4.21	(16.2)	(21.0)
Net profit bef Except.	2.45	4.91	4.59	87.7	(6.5)
EBITDA	11.0	14.5	13.3	20.6	(8.5)
Margins (%)					
Gross Margins	34.9	24.3	31.5		
Opg Profit Margins	11.7	14.2	16.8		
Net Profit Margins	13.6	6.0	8.2		

Source of all data: Company, DBS Bank

Roxy-Pacific Holdings

CRITICAL DATA POINTS TO WATCH

Critical Factors

Launching six remaining residential projects with a total of 600 units in Singapore in 2019. Since 2016, Roxy has accumulated 11 pieces of land with a total of 900 residential units. As at end-FY18, Roxy had a pipeline of six projects with a total of 600 units expected to be launched in FY19. It has launched 5 out of the 6 projects launches year-to-date Jul19. Even as sentiment continues to soften, we believe the better-located freehold sites will still garner interests given Roxy's good sales take-up for Arena Residences.

Beefing up its recurring-income portfolio. Since the slowdown of the Singapore property market in 2013, Roxy had started to venture out of Singapore and expanded its horizons to build its portfolio of assets to improve recurring income and provide earnings stability.

In FY17, Roxy acquired four commercial buildings – two in Australia, and two in New Zealand – adding to its portfolio of one commercial building (excluding the divestment of 59 Goulburn, a commercial building).

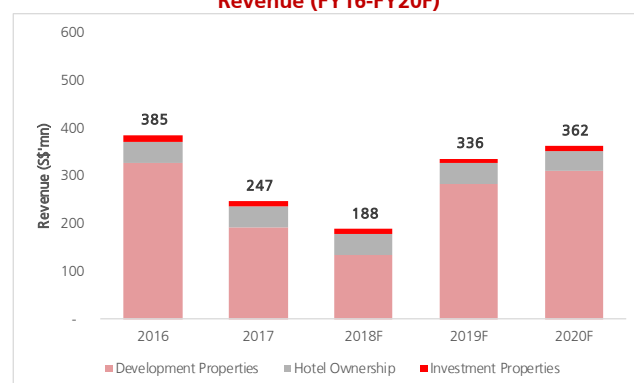
In FY18, Roxy reinvested in three commercial buildings (two in NSW, Australia and one in New Zealand) for a total of S\$117m, after divesting 117 Clarence St for almost double its acquisition price in 2016. The properties are estimated to yield c.5% in Australia and c.6% in New Zealand.

In addition, the group continues to build its hospitality segment, which will add to its recurring income.

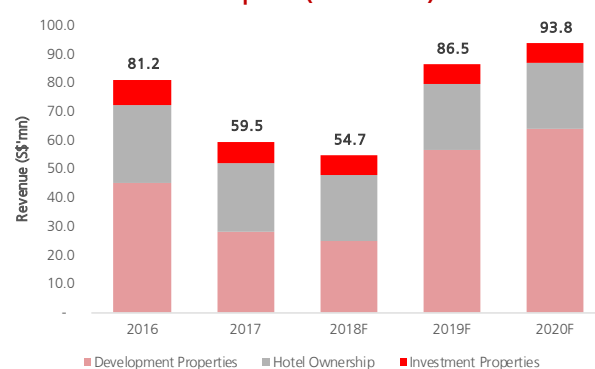
Realisation of development projects in Australia upon completion.

Roxy's investments of development projects in Australia in 2015 will soon pay off starting with The Hensley which was completed in December 2018. The projects have all been substantially sold (95% sold) except for the last project launched in 3Q17, Art House at West End Glebe. The units sold have a total sales value of more than S\$300m and could contribute to FY19F-FY20F earnings.

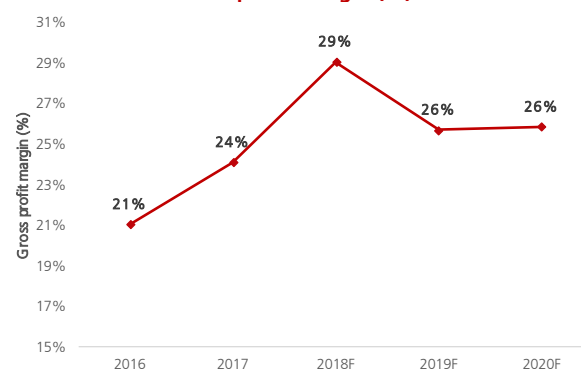
Revenue (FY16-FY20F)



Gross profit (FY16-FY20F)



Gross profit margin (%)



RNAV (\$'m)

OMV (\$'m)

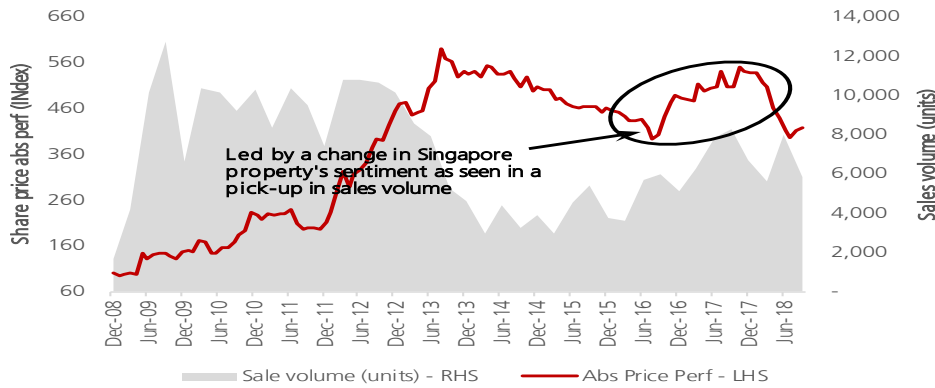
Surplus / deficit of assets:	
Development properties	122.7
Land bank	18.5
Hotel properties	447.2
Investment properties	92.0
	680.5
NAV	461.9
RNAV	1,142.3
No of shares	1,311.6
RNAV per share (S\$)	0.87
Discount	55%
Price Target (S\$)	0.39

Source: Company, DBS Bank

Roxy-Pacific Holdings

Appendix 1:

Roxy's absolute performance vs Singapore property industry sales volume

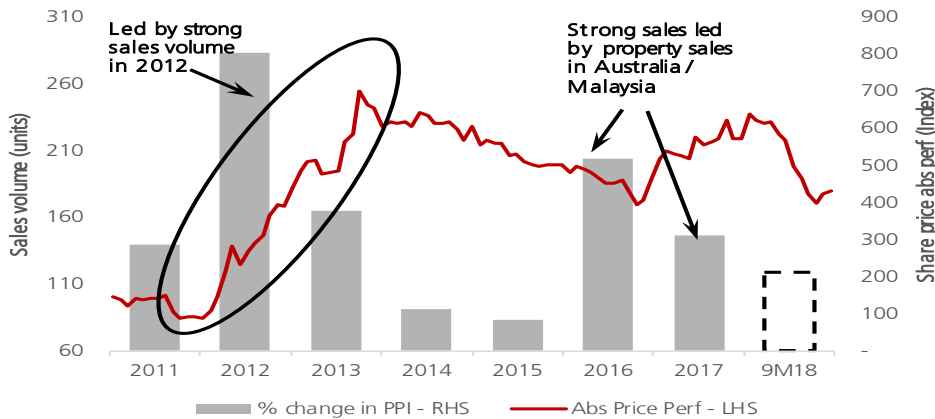


Source: DBS Bank, Thomson Analytics, Company

Remarks

Share price performance is positively correlated to sales volume in the Singapore property industry, especially at the initial stages of an upcycle seen in 2017, when sentiment in the property sector turned positive, supported by an increase in sales volume.

Roxy's absolute performance vs its property sales volume

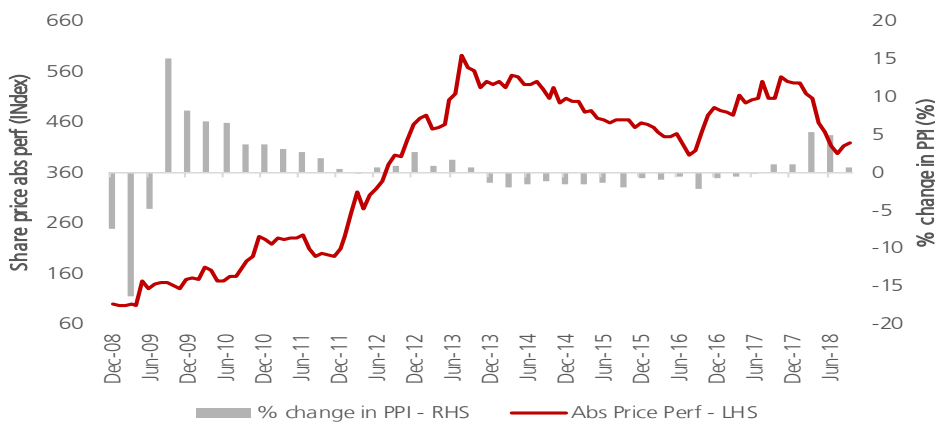


Source: DBS Bank, Thomson Analytics, Company

Remarks

The market did not reward Roxy despite its strong sales performance in 2016. As the strong sales volume was led by sales in Australia and Malaysia, share price performance seemed to be more correlated to its sales volume in Singapore.

Roxy's absolute performance vs PPI changes



Source: DBS Bank, Thomson Analytics, Company, SGX

Remarks

We do not see much correlation between share price performance and property price changes.

Roxy-Pacific Holdings

Balance Sheet:

Undervalued Net Asset Value (NAV). The group's NAV is conservative, largely because the carrying values of its hospitality portfolio are at historical costs. In addition, development properties comprise close to 60% of its total assets, which typically offer more upside upon realisation of these development properties. Its RNAV is more than double its current NAV.

Net debt-to-equity stood at 1.5x in FY18. Roxy's net debt-to-equity stood at 1.5x as at end-FY18, which increased from 1x in FY17 following land banking/development activities, and acquisitions of investment properties in FY18.

Share Price Drivers:

Sustainable sales take-up rates despite cooling measures.

Despite the property cooling measures, if sales take-up rates remain sustainable and lofty property prices remain lofty, this would boost confidence and ensure sustainable profitability in its development properties.

Beefing up its recurring income portfolio. Improvement in office rental rates of its office properties and positive asset recycling will boost investor confidence in the capabilities of management in managing and building a sustainable recurring income portfolio for higher income stability.

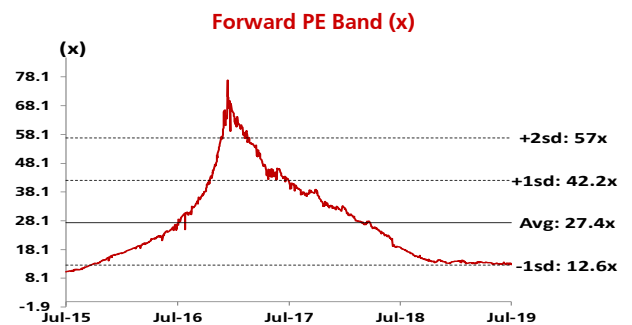
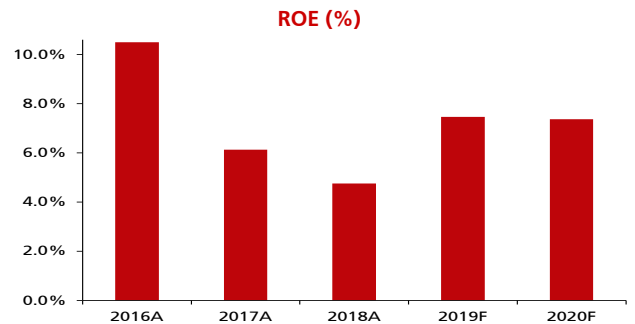
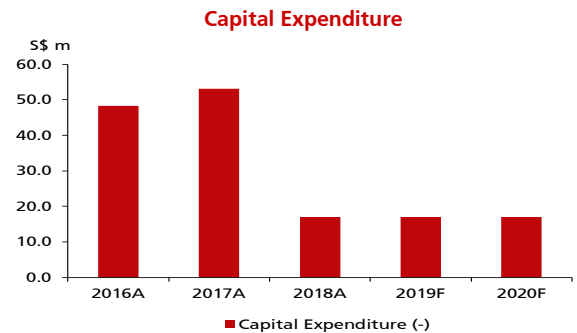
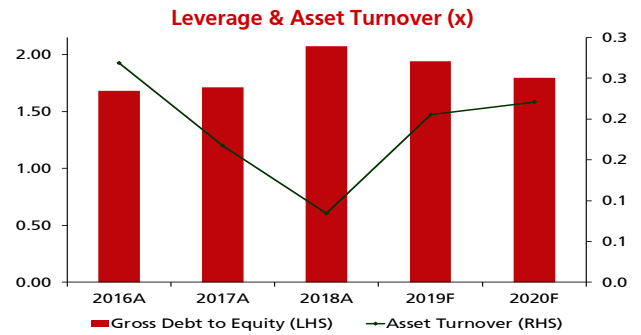
Key Risks:

Slower take-up rates. With six developments expected to be launched in FY19, slower take-up rates for its properties would heighten the need for more financing, thus, increasing its cost. In addition, Roxy has the five-year timeline to complete its sales before the ABSD and QC charges kick in.

Government tightens regulations on Singapore property. While market sentiment may have softened with the last cooling measures and we believe the government may hold back to monitor the market in the near-term, we remain cautious that the authorities may decide to implement more measures should the market stay lofty and supported.

Company Background

Roxy-Pacific Holdings (Roxy) has a long track record in the property and hospitality space since it was established in May 1967. Listed in March 2008, Roxy is one of the reputable small- to mid-cap developers and has established its brand in small- to medium-sized residential developments targeting middle-to-upper-middle income segments.



Source: Company, DBS Bank

Roxy-Pacific Holdings

Segmental Breakdown

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenues (\$m)					
Development Properties	327	192	75.0	283	310
Hotel Ownership	46.3	44.3	50.0	43.0	43.0
Investment Properties	12.5	10.8	7.88	9.75	9.75
Total	385	247	133	336	362
Gross Profit (\$m)					
Development Properties	45.3	28.0	18.8	56.5	63.8
Hotel Ownership	26.9	24.0	25.0	23.2	23.2
Investment Properties	9.00	7.59	5.40	6.71	6.71
Total	81.2	59.5	49.2	86.5	93.8
Gross Profit Margins (%)					
Development Properties	13.9	14.6	25.1	20.0	20.6
Hotel Ownership	58.1	54.2	50.0	54.0	54.0
Investment Properties	71.9	70.5	68.6	68.8	68.8
Total	21.1	24.1	37.1	25.7	25.9

Income Statement (\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	385	247	133	336	362
Cost of Goods Sold	(304)	(187)	(83.6)	(250)	(269)
Gross Profit	81.2	59.5	49.2	86.5	93.8
Other Opng (Exp)/Inc	(38.7)	(36.7)	(35.3)	(39.3)	(40.5)
Operating Profit	42.4	22.8	13.9	62.0	69.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	18.6	14.1	20.8	10.4	15.7
Net Interest (Exp)/Inc	(11.9)	(12.0)	(10.3)	(18.5)	(19.3)
Exceptional Gain/(Loss)	16.4	22.9	3.90	0.0	0.0
Pre-tax Profit	65.6	47.8	28.3	53.9	65.5
Tax	(12.7)	(15.4)	(4.6)	(10.0)	(12.8)
Minority Interest	(3.1)	(1.9)	0.09	(5.6)	(12.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	49.8	30.5	23.9	38.3	40.0
Net Profit before Except.	33.4	7.59	20.0	38.3	40.0
EBITDA	67.6	42.6	42.0	80.2	92.8
Growth					
Revenue Gth (%)	(16.4)	(36.0)	(46.2)	153.0	7.8
EBITDA Gth (%)	(38.5)	(36.9)	(1.6)	91.0	15.7
Opg Profit Gth (%)	(54.7)	(46.3)	(39.1)	346.5	11.3
Net Profit Gth (Pre-ex) (%)	(57.4)	(77.3)	163.2	91.8	4.4
Margins & Ratio					
Gross Margins (%)	21.1	24.1	37.1	25.7	25.9
Opg Profit Margin (%)	11.0	9.2	10.5	18.5	19.0
Net Profit Margin (%)	12.9	12.4	18.0	11.4	11.0
ROAE (%)	10.5	6.1	4.8	7.5	7.4
ROA (%)	3.5	2.1	1.5	2.3	2.4
ROCE (%)	2.6	1.1	0.8	3.2	3.4
Div Payout Ratio (%)	39.9	38.5	39.9	25.0	25.0
Net Interest Cover (x)	3.6	1.9	1.3	3.3	3.6

Source: Company, DBS Bank

Roxy-Pacific Holdings

Quarterly / Interim Income Statement (\$\$m)

FY Dec	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	37.0	18.8	30.8	88.5	51.4
Cost of Goods Sold	(24.1)	(8.1)	(18.2)	(67.0)	(35.2)
Gross Profit	12.9	10.7	12.6	21.6	16.2
Other Oper. (Exp)/Inc	(8.6)	(5.7)	(10.4)	(9.0)	(7.6)
Operating Profit	4.33	5.02	2.23	12.5	8.62
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	5.10	2.78	6.54	(0.1)	2.19
Net Interest (Exp)/Inc	(4.7)	(2.4)	(3.3)	(5.6)	(5.8)
Exceptional Gain/(Loss)	2.58	(0.3)	1.07	0.42	(0.4)
Pre-tax Profit	7.35	5.04	6.50	7.25	4.64
Tax	(2.2)	(0.9)	(0.6)	(2.4)	(0.5)
Minority Interest	(0.1)	0.20	0.04	0.46	0.12
Net Profit	5.03	4.38	5.93	5.33	4.21
Net profit bef Except.	2.45	4.70	4.86	4.91	4.59
EBITDA	11.0	9.33	11.2	14.5	13.3

Growth

Revenue Gth (%)	(20.4)	(49.2)	64.3	187.1	(42.0)
EBITDA Gth (%)	(19.1)	(15.5)	20.5	29.4	(8.5)
Opg Profit Gth (%)	(26.5)	15.8	(55.5)	461.2	(31.2)
Net Profit Gth (Pre-ex) (%)	(65.7)	92.1	3.4	1.0	(6.5)

Margins

Gross Margins (%)	34.9	57.0	40.8	24.3	31.5
Opg Profit Margins (%)	11.7	26.7	7.2	14.2	16.8
Net Profit Margins (%)	13.6	23.3	19.2	6.0	8.2

Balance Sheet (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	176	216	231	240	249
Invts in Associates & JVs	158	200	201	211	227
Other LT Assets	200	127	129	129	129
Cash & ST Invts	325	322	292	200	218
Inventory	0.78	1.07	1.09	1.09	1.09
Debtors	93.1	53.3	28.7	69.5	74.9
Other Current Assets	509	572	768	768	768
Total Assets	1,462	1,491	1,650	1,619	1,666
ST Debt	562	554	813	813	813
Creditor	15.6	62.2	74.8	17.2	18.5
Other Current Liab	85.3	30.9	17.6	9.97	12.8
LT Debt	271	318	230	230	230
Other LT Liabilities	33.1	16.5	11.4	11.4	11.4
Shareholder's Equity	491	504	499	527	558
Minority Interests	3.75	5.07	4.62	10.3	23.0
Total Cap. & Liab.	1,462	1,491	1,650	1,619	1,666
Non-Cash Wkg. Capital	502	533	705	811	813
Net Cash/(Debt)	(507)	(549)	(751)	(843)	(825)
Debtors Turn (avg days)	57.8	108.3	112.6	53.3	72.7
Creditors Turn (avg days)	16.7	78.2	327.3	69.4	25.0
Inventory Turn (avg days)	0.6	1.9	5.1	1.6	1.5
Asset Turnover (x)	0.3	0.2	0.1	0.2	0.2
Current Ratio (x)	1.4	1.5	1.2	1.2	1.3
Quick Ratio (x)	0.6	0.6	0.4	0.3	0.3
Net Debt/Equity (X)	1.0	1.1	1.5	1.6	1.4
Net Debt/Equity ex MI (X)	1.0	1.1	1.5	1.6	1.5
Capex to Debt (%)	5.8	6.1	1.6	1.6	1.6
Z-Score (X)	1.0	1.3	1.0	1.3	1.3

Source: Company, DBS Bank

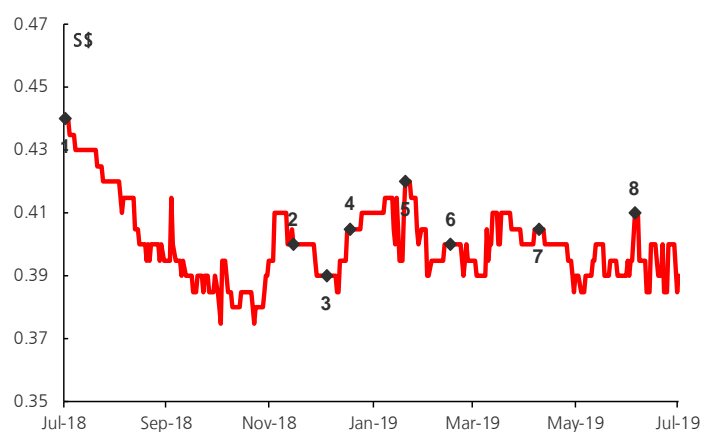
Roxy-Pacific Holdings

Cash Flow Statement (\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	65.6	47.8	28.3	53.9	65.5
Dep. & Amort.	6.48	5.75	7.23	7.74	8.04
Tax Paid	(24.6)	(2.4)	(21.9)	(17.6)	(10.0)
Assoc. & JV Inc/(loss)	(18.6)	(14.1)	(20.8)	(10.4)	(15.7)
Chg in Wkg.Cap.	(16.7)	(47.8)	(165)	(98.4)	(4.1)
Other Operating CF	(4.6)	(8.9)	6.71	0.0	0.0
Net Operating CF	7.54	(19.7)	(165)	(64.7)	43.8
Capital Exp.(net)	(48.3)	(53.1)	(17.0)	(17.0)	(17.0)
Other Invt.(net)	0.0	99.2	0.0	0.0	0.0
Invt in Assoc. & JV	(17.1)	(38.5)	(22.9)	0.0	0.0
Div from Assoc & JV	13.3	3.34	41.5	0.0	0.0
Other Investing CF	2.36	3.20	2.19	0.0	0.0
Net Investing CF	(49.7)	14.2	3.80	(17.0)	(17.0)
Div Paid	(21.5)	(16.4)	(11.7)	(9.5)	(9.6)
Chg in Gross Debt	19.0	41.9	177	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(32.4)	(22.6)	(13.2)	0.0	0.0
Net Financing CF	(34.8)	2.85	152	(9.5)	(9.6)
Currency Adjustments	1.28	(0.2)	(5.1)	0.0	0.0
Chg in Cash	(75.7)	(2.9)	(14.0)	(91.2)	17.2
Opg CFPS (S cts)	2.03	2.36	0.0	2.57	3.65
Free CFPS (S cts)	(3.4)	(6.1)	(13.9)	(6.2)	2.04

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Aug 18	0.44	0.40	FULLY VALUED
2:	14 Dec 18	0.40	0.39	HOLD
3:	03 Jan 19	0.39	0.39	HOLD
4:	17 Jan 19	0.41	0.39	HOLD
5:	19 Feb 19	0.42	0.39	HOLD
6:	18 Mar 19	0.40	0.39	HOLD
7:	09 May 19	0.41	0.39	HOLD
8:	05 Jul 19	0.41	0.39	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 2 Aug 2019 12:28:44 (SGT)

Dissemination Date: 2 Aug 2019 12:44:06 (SGT)

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