

10 in 10 – Hong Lai Huat Group Limited (SGX Code: CTO)

10 Questions in 10 Minutes with SGX-listed companies



HONG LAI HUAT
GROUP LIMITED
達來發集團有限公司
SGX MAINBOARD (CTO.SI)



10 Questions for Hong Lai Huat Group

Company Overview

Founded in 1988, Hong Lai Huat Group started as a construction company in Singapore. The Group has since completed several real estate projects in Singapore and expanded operations to Cambodia. The Group also operates an agriculture business and owns one of the largest privately-owned cassava plantations in Cambodia. [Link to StockFacts company page.](#)

SGX Code: CTO	BBG: HLHG SP	RIC: HONL.SI
Market cap on 24 Jan (S\$m)		48.2
Price on 24 Jan (S\$)		0.235
52 wk high/low		0.28 - 0.148
12m ADTV (S\$)		111,693
Shares Outstanding (m)		221.9
Float		54.2%
P/E (LTM)		17.5
P/B (LTM)		0.4
Dividend Yield		N/A

Source: Bloomberg (24 Jan 2019)

1. What are some notable developments Hong Lai Huat's investors can look forward to?

- Cambodia remains one of the key focus markets in our property development division. Following the success of our first project, D'Seaview in Preah Sihanouk, the Group's property division recently entered into a Joint Venture agreement with The Royal Group of Companies (announced 1st Nov 2018, [read more](#)) to launch our second mixed development project in the Kingdom of Cambodia.
- The new project will be located in the capital city of Cambodia, Phnom Penh, and the land is located in the heart of Toul Kuok district, which is mainly a high-end residential and commercial development zone. The new project will have an estimated built up area of 80,000 sq m and the Group intends to launch the new project in the next 4 months.

2. Describe Hong Lai Huat's business mix and segments.

- Hong Lai Huat Group operates two business segments:
 - **Property Development (c.70% of FY17 revenue)** – Development of residential, commercial and industrial projects in Singapore and Cambodia. As at September 2018, D'Seaview (our first freehold mixed development in Cambodia) has sold more than 70% of the overall residential and commercial units and construction is scheduled for completion in 2019. The completion of D'Seaview in Cambodia will mark the group's first successful foray into an overseas market.
 - **Agriculture Business (c.30% of FY17 revenue)** – Cultivation of fresh cassava and manufacturing & distribution of tapioca starch. This segment also includes the Group's farm resort business, D'Kranji Farm Resort which is currently managed by a third party for recurring revenue.
- In our recent 3Q18 earnings, our property development segment accounted for 91% of the Group's 9M18 revenue. Moving forward, we expect to maintain a similar revenue mix (c.90% Property Development, c.10% Agriculture Business).

3. What are Hong Lai Huat's key revenue and business/segment drivers?

- We expect both the Property Development and Agriculture Business to continue to be key revenue drivers for the Group as we continue to look for opportunities to expand our project portfolios.

4. Are there any new markets (Property Development) you are exploring to expand into and what is a typical due diligence process taken when entering into a new market?

- Yes, we are open to exploring expansion opportunities across Southeast Asia and will conduct feasibility and market studies as part of our due diligence process. The conclusion of our studies will then be submitted to the Board for approval prior to making any decision to enter a new market. We will also update our shareholders if any plans have been finalised.

5. Can you elaborate more on your Agriculture Business (i.e. cassava business) in Cambodia and any plans to expand this?

- The Group operates one of the largest privately-owned cassava plantations in Cambodia. We have developed nearly 10,450 hectares of plantation land with farming infrastructures such as warehouses, offices, workers residences and starch processing facilities on-site.
- Harvested fresh cassava will either be sold or produced into native tapioca starch through our starch factory located within the farm. The factory has an annual production capacity of 36,000 tons on full utilisation. The tapioca starch produced on-site is HACCP and ISO22000 certified and has been exported to countries like Netherlands, Italy, France and India.
- We are working towards full utilisation of the plantation area to achieve higher yields of our fresh cassava. We are also studying potential partnerships with international corporations in the agriculture industry in upstream or downstream cassava-related products.

The Group owns one of largest privately-owned cassava plantations in Cambodia



Fresh cassava cultivated in the plantation



In-house manufacturing of tapioca starch from fresh cassava



6. Who are your peers in the cassava and tapioca starch production business in Cambodia?

- Based on our knowledge, there are less than five starch production operators in Cambodia. We believe the absence of market competition provides the Group with opportunities for growth and improvement. The cassava and tapioca starch production industry consists largely of local farmers whom we have also worked with to enhance yields of our plantation and create jobs for the local farming community.
- We note that there are some companies which have started building cassava production plants in Cambodia. We believe competition in this segment is healthy as it shows that international investors are noticing the potential for growth. Given the nature of the industry, there could also be potential opportunities for partnerships.

7. What is management's longer-term vision for both the Property Development and Agriculture Business?

- The Group's long-term vision is to expand our Property Development business regionally in Southeast Asia, should opportunities arise.
- For the Agriculture Business segment, we will be working towards full utilisation of our assets and to work with a strategic international corporation to expand our upstream or downstream starch products.

8. Can you elaborate more on the longer-term growth prospects for the Cambodian real estate market and how Hong Lai Huat is positioned to benefit from this?

- We believe property prices will increase in value as more international companies venture into the Cambodian real estate market (either residential or commercial developments), which may help increase the value of our existing property and confidence of buyers in our projects. We think that the Group is positioned to benefit from a first mover advantage when we first acquired the D'Seaview land in 2015.
- In addition, Sihanoukville – where D'Seaview, our first overseas mixed development project is being developed – is situated in a key economic province of Cambodia where the Kingdom's largest Special Economic Zone as well as the country's only deep-water seaport is located. Sihanoukville is also a growing tourist destination and home to many famous seaside resorts, it is also served by an international airport with flights from China, Vietnam, Thailand and Malaysia. As part of China's Belt & Road Initiative, a new highway connecting Phnom Penh to Sihanoukville will be built by 2020, reducing travelling time and increasing accessibility for locals and foreign visitors between the two cities.



D'Seaview in Sihanoukville, Cambodia – the Group's first freehold mixed development



D'Seaview is located 900m away from Sokha Beach, is scheduled for full completion in 2019

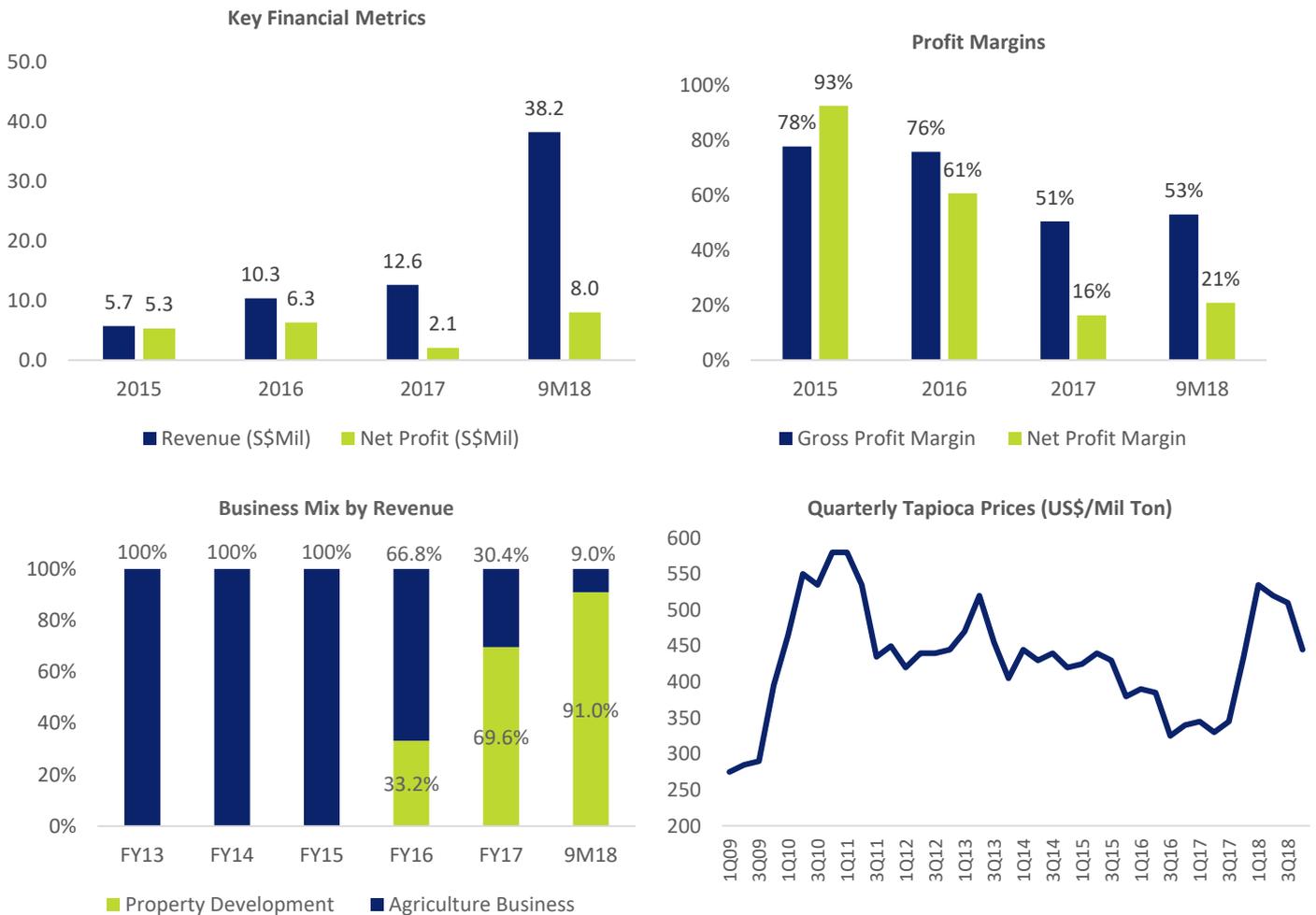
9. Are there any plans to increase your leasing business (contributing to recurring income) such as the farm resort in Kranji?

- Yes, the Group has plans to lease out some of the retail spaces of our D'Seaview project which will add to the Group's recurring revenue. Separately, we may also look to lease out some of our under-utilised farming assets in Cambodia to add to the Group's recurring revenue.

10. What is Hong Lai Huat’s value proposition and what do you think investors may have overlooked about its business?

- We believe the Group’s value proposition is our first mover advantage in the Cambodian real estate market. The Group has spent c.10 years in Cambodia, starting with our Agriculture Business, and although initial stages of investment have been tough on our investors and shareholders, we believe that as Cambodia’s economy continues to grow, the Group will stand to reap the benefits of our early ventures.

Financials & Charts



Source: Company data, Thai Tapioca Starch Association.

10 in 10 – 10 Questions in 10 Minutes with SGX-listed companies

Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company’s management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For company information, visit hlh.com.sg
Click [here](#) for November 2018 3rd Quarter Earnings Announcements

Notes

Contact Us

For more information, please contact asksgx@sgx.com
sgx.com/research

This document is not intended for distribution to, or for use by or to be acted on by any person or entity located in any jurisdiction where such distribution, use or action would be contrary to applicable laws or regulations or would subject Singapore Exchange Limited (“SGX”) to any registration or licensing requirement. This document is not an offer or solicitation to buy or sell, nor financial advice or recommendation for any investment product. This document is for general circulation only. It does not address the specific investment objectives, financial situation or particular needs of any person. Advice should be sought from a financial adviser regarding the suitability of any investment product before investing or adopting any investment strategies. Use of and/or reliance on this document is entirely at the reader’s own risk. Further information on this investment product may be obtained from www.sgx.com. Investment products are subject to significant investment risks, including the possible loss of the principal amount invested. **Past performance of investment products is not indicative of their future performance.** Examples provided are for illustrative purposes only. While each of SGX and its affiliates (collectively, the “**SGX Group Companies**”) have taken reasonable care to ensure the accuracy and completeness of the information provided, each of the SGX Group Companies disclaims any and all guarantees, representations and warranties, expressed or implied, in relation to this document and shall not be responsible or liable (whether under contract, tort (including negligence) or otherwise) for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind, including without limitation loss of profit, loss of reputation and loss of opportunity) suffered or incurred by any person due to any omission, error, inaccuracy, incompleteness, or otherwise, any reliance on such information, or arising from and/or in connection with this document. The information in this document may have been obtained via third party sources and which have not been independently verified by any SGX Group Company. No SGX Group Company endorses or shall be liable for the content of information provided by third parties. The SGX Group Companies may deal in investment products in the usual course of their business, and may be on the opposite side of any trades. SGX is an exempt financial adviser under the Financial Advisers Act (Cap. 110) of Singapore. The information in this document is subject to change without notice. This document shall not be reproduced, republished, uploaded, linked, posted, transmitted, adapted, copied, translated, modified, edited or otherwise displayed or distributed in any manner without SGX’s prior written consent.