

Results Update

30 August 2017

HCK Capital Group Bhd

HOLD

Earnings dragged by higher overhead and interest

Target price: RM1.24

KLCI	1761.14 points
Share Price	RM1.24
Target Price	RM1.24
Expected share price return	0%
Expected dividend return	0%
Expected total return	0%

Stock Data	
Bursa / Bloomberg code	7105 / HCK MK
Market / Board	Main / Property
Issued shares (m)	421.17
Market cap	RM522.25m
Par value	RM1.00
52-week price Range	RM0.60 – 1.56
Beta (against KLCI)	0.33
3-m Average Daily Volume	0.07m
3-m Average Daily Value [^]	RM0.09m

Share Performance			
	1m	3m	12m
Absolute (%)	9.2	17.2	101.3
Relative (%-pts)	9.5	18.8	92.2

Major Shareholders		%
HIICHIKOK EQUITIES SDN BHD	68.16	
HARMONI GENTING SDN BHD	5.10	
SYMPHONY DIVERSIFIED S B	4.02	
Estimated Free Float	19.72	



Source: Bloomberg

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This report is also accessible at www.bursamids.com

Quarterly Results

- **Lower earnings** - 2Q17 net profit declined 13% YoY to RM355k due to higher operating expenses and interest expense. This was despite revenue rising 45% YoY to RM7.7m.
- **Improved QoQ** – On a QoQ basis, net profit improved from a net loss of RM1.1m in 1Q17 while revenue grew 29% QoQ.
- **Property driving growth** – Revenue from Property division increased 53% YoY and 34% QoQ to RM7.2m, making up the lion share of revenue. Similarly, operating profit from this division rose 130% YoY and 721% QoQ to RM2.15m.
- **F&B still bleeding** – Sales from its Jamaica Blue coffee chain dropped 22% YoY and 16% QoQ to RM0.5m while operating losses widened by 61% YoY and 122% QoQ to RM0.8m.
- **Flat year ahead** - We expect flat earnings in 2017 as its property development will only kick off next year. The F&B business is expected to improve in 4Q17 as HCK has signed 4 franchisees that will start operating by September.
- **Going forward, 2018F earnings will come from the development of Phase 2 of EduSphere, Cyberjaya** which will be launched in end-2017 with a gross development value (GDV) of RM245m.
- **In 2019, bumper earnings are expected to be booked with lump sum recognition of sales from The Duo serviced suites** upon delivery of the units. The Duo's entire project GDV is RM285m and currently 64% or equivalent to GDV of RM180m has been sold.
- As such, revenue is expected grow exponentially by 209% YoY and 315% YoY to RM90.8m and RM376.6m in 2018F and 2019F respectively. Similarly, net profit is expected to increase 199% YoY and 301% YoY to RM3.5m and RM14.1m in 2018F and 2019F respectively.
- **Gearing and interest cost are expected to increase** due to borrowings to fund upcoming property trading, investments and development projects. However, gearing then will be reduced upon delivery of The Duo project.

Valuation & Recommendation

- **Forecasts maintained – 1H17 revenue achieved 47% of our full year forecast** while the company is expected to turn around its RM0.5m net loss towards our full year estimate of RM1.2m net profit. As such, we are keeping our forecast for 2017 to 2019.
- **Maintain HOLD call with an unchanged target price of RM1.24** based 30% on its realizable net asset value (RNAV)/share of RM1.78.

Quarterly Results

YEAR END DEC	2Q17	2Q16	YoY	1Q17	QoQ	1H17	1H16	YoY
Properties	7.21	4.70	53%	5.38	34%	12.59	8.55	47%
Food	0.49	0.63	-22%	0.59	-16%	1.08	1.35	-20%
Others	0.01	0.00	-	0.00	-	0.01	0.09	-88%
Revenue	7.71	5.33	45%	5.97	29%	13.68	9.99	37%
Cost of sales	-1.24	-1.19	4%	-1.19	4%	-2.43	-2.50	-3%
Gross Profit	6.48	4.15	56%	4.78	35%	11.25	7.50	50%
Other operating income	0.01	0.01	-11%	0.00	300%	0.01	0.02	-41%
Administrative and general expenses	-4.81	-3.57	34%	-4.98	-3%	-9.78	-7.40	32%
Sales and marketing expenses	-0.29	-0.28	2%	-0.24	18%	-0.53	-0.38	39%
Operating profit/loss	1.39	0.30	362%	-0.44	-416%	0.96	-0.26	-464%
Interest income	0.00	0.02	-87%	0.04	-94%	0.04	0.11	-65%
Interest expense	-1.08	-0.01	7621%	-0.72	50%	-1.80	-0.03	6117%
PBT	0.31	0.30	4%	-1.13	-128%	-0.81	-0.18	344%
Tax	0.04	0.27	-84%	-0.04	-200%	0.00	0.21	-100%
PAT	0.36	0.57	-37%	-1.17	-130%	-0.81	0.02	-3467%
Minority interest	0.21	0.08	149%	0.07	182%	0.28	0.12	132%
Net profit	0.56	0.65	-13%	-1.10	-152%	-0.53	0.14	-469%
Gross margin	84%	78%		80%		82%	75%	
Operating margin	18%	6%		-7%		7%	-3%	
PBT margin	4%	6%		-19%		-6%	-2%	
Net profit margin	7%	12%		-18%		-4%	1%	
Tax rate	-13%	-88%		-4%		0%	113%	
OPERATING PROFIT								
Properties	2.15	0.94	130%	0.26	721%	2.41	0.98	146%
Food	-0.79	-0.49	61%	-0.36	122%	-1.15	-0.96	20%
Others	0.04	-0.14	-129%	-0.35	-112%	-0.31	-0.29	7%
TOTAL	1.40	0.30	364%	-0.44	-417%	0.95	-0.27	-459%

Income Statement (RM million)

Year to 30 June (RMm)	FY2013	FY2014	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Revenue	52.4	37.8	33.2	20.6	29.4	90.8	376.6
Gross profit	19.3	25.0	23.5	15.3	20.6	54.5	225.9
Operating profit	3.8	11.1	16.0	1.3	4.5	8.0	22.8
Profit before tax	3.7	10.8	15.7	1.1	1.5	4.5	18.8
Net profit	4.2	9.4	11.5	1.5	1.2	3.5	14.1
Core net profit	4.2	9.4	11.5	1.5	1.2	3.5	14.1
EPS (sen)	1.0	2.2	2.7	0.4	0.3	0.8	3.4
DPS (sen)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
P/E (x)	123.58	55.84	45.24	347.71	444.32	148.42	36.98
P/BV (x)	8.3	5.6	4.9	2.9	2.6	2.3	3.8
Diluted EPS (sen)	1.0	2.2	2.7	0.4	0.3	0.8	3.4
FD P/E	123.6	55.8	45.2	347.7	466.5	148.4	37.0
Revenue growth (%)	0.0	-27.8	-12.2	-38.1	42.7	209.0	314.7
Net profit growth (%)	0.0	121.3	23.4	-87.0	-21.7	199.4	301.3
Core net profit growth (%)	0.0	121.3	23.4	-87.0	-21.7	199.4	301.3
Gross margin (%)	36.8	66.0	70.8	74.3	70.0	60.0	60.0
Operating margin (%)	7.2	29.2	48.1	6.4	15.2	8.9	6.1
PBT margin (%)	7.0	28.6	47.1	5.5	5.0	5.0	5.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.7	1.4	2.1
Net gearing (%)	-18.9	-30.5	-3.4	69.1	59.3	42.0	18.1
ROE (%)	6.9	10.3	11.3	0.9	0.6	1.6	13.1
ROA (%)	3.9	6.3	8.8	0.4	0.3	0.8	5.4

Source: HCK, JF Apex

Balance Sheet (RM million)

(RM'm)	FY2013	FY2014	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Balance Sheet							
<i>Cash</i>	16.8	41.9	16.9	3.0	18.0	38.0	68.0
Current assets	59.8	98.1	100.7	254.7	280.2	308.2	123.3
Non-current assets	48.1	49.7	30.9	119.1	125.1	131.4	137.9
Total assets	108.0	147.9	131.6	373.8	405.3	439.5	261.2
<i>Short term debt</i>	3.3	5.1	0.1	12.2	24.4	26.8	18.8
Current liabilities	41.3	44.4	10.3	75.8	79.6	83.6	58.5
<i>Long term debt</i>	1.5	9.1	13.3	112.8	116.2	119.7	59.8
Non-current liabilities	3.5	10.9	13.7	116.5	122.3	128.5	64.2
Total liabilities	44.8	55.3	24.0	192.3	201.9	212.0	122.7
<i>Shareholders' equity</i>	61.5	90.7	102.3	176.4	198.2	222.4	133.4
MI	1.7	1.8	5.3	5.1	5.1	5.1	5.1
Total equity	63.2	92.6	107.6	181.5	203.3	227.5	138.5
Total liabilities & equity	108.0	147.9	131.6	373.8	405.3	439.5	261.2

Cashflow Statement

(RM'm)	FY2013	FY2014	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Cash Flow							
Cash flow from operations	9.7	4.3	21.5	8.1	10.0	30.0	200.0
Cash flow from investing	-13.8	-2.6	-33.9	-15.2	-15.0	-40.0	-70.0
Cash flow from financing	7.3	31.0	-12.5	-6.8	20.0	30.0	-100.0
Cash generated	3.1	24.1	-24.9	-13.8	15.0	20.0	30.0
Cash at beginning	13.5	16.7	41.8	16.9	3.0	18.0	38.0
Cash at end of period	16.7	41.8	16.9	3.0	18.0	38.0	68.0

Valuation

On-going projects	Remaining GDV RM(m)	Stake	DCF of development profits	Basis
Edusphere, Cyberjaya	1500	70%	189.1	Cost of equity 5.47%
The Duo serviced suites	285	100%	58.5	
The Duo office tower	105	100%	21.5	
Semenyih residential development	387	100%	75.3	
Selangor Science Park 2	1200	100%	205.0	
Kuching industrial development	142	34.17%	8.9	
Jazz Residences	21	100%	4.4	
Project Management	21	100%	4.0	
Total	3661		566.7	
Shareholders' equity			198.2	
Proceeds from Warrants			22.5	10 year expiry
RNAV			787.5	
Enlarged no. of shares			442.2	
FD RNAV/share			1.78	

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JF APEX SECURITIES – RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

BUY : The stock's total returns* are expected to exceed 10% within the next 12 months.

HOLD : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL : The stock's total returns* are expected to be below -10% within the next 12 months.

TRADING BUY : The stock's total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

MARKETWEIGHT : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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