

MEDIA CLIPPING

Client :	Hock Heng Stone Industries Bhd	Date :	22 March 2010
Media :	The Edge Weekly	Section :	Business
Language :	English		

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going for listing

Hock Heng to ride construction recovery wave

BY Joy Lee

As new listings trickle back into the market, Hock Heng Stone Industries Bhd is jumping on the bandwagon with its scheduled listing on the Main Market of Bursa Malaysia on March 26. Hock Heng's is the third listing on Bursa this year.

Hock Heng manufactures dimension stone products including granite, marble, sandstone and slate. Its products are sold through a network of dealers throughout the country, which are mainly companies involved in the trading of building materials.

The group stands to benefit from the economic recovery, as the pick-up in the construction sector will give the support industry a boost.

In its IPO prospectus, Hock Heng notes that the construction sector is expected to expand by 3.2% in 2010. Although slightly below the 3.5% of last year, the group believes its long-term prospects are good, especially with increasing awareness of its products in the market. The dimension stone sector was reported to be worth RM220.4 million in 2008, with Hock Heng having 22.5% market share.

Hock Heng intends to establish its presence in the northern region, where growth in the property market is expected to accelerate from the Northern Corridor Economic Region project.

The group has an integrated production facility in Melaka that has an annual production capacity of 45,000 sq m of granite slabs and 240,000 sq m of marble slabs. It says capacity can be increased should the need arise.

It is also in the midst of constructing its new secondary processing plant in Subang to meet an expected increase in demand. The plant is expected to be completed within six months of the company's listing.

Currently, Hock Heng's products

Company financials

YEAR ENDED DECEMBER	2006	2007	2008	2009F
Sales (RM mil)	30,213	35,573	49,557	—
Pretax income (RM mil)	5.84	7,206	7,576	—
Net Income (RM mil)	4,434	5,567	5,742	—
EPS (sen)	6.87	8.61	8.9	—
PER at 55 sen as of Sept 30, 2009	6.32	6.39	6.18	7.65
DPS (sen)	—	—	—	—
Dividend yield (%)	—	—	—	—

cater mainly for local demand, but the company plans to expand into the overseas market post listing, with the focus on China, Singapore, Indonesia and Vietnam where growth is still robust.

The company also plans to venture into quarry operations, to gain some control over the supply chain and product pricing. The group owns a quarry in Tangkak, Johor, and recently obtained approval to extract granite there. The quarry is reported to have about 85,000 cu m of stone reserves with commercial potential. It will commence operation with the proceeds from the public issue. This segment is expected to contribute RM10 million to the company's revenue for FY2011 ending Dec 31.

To recap, Hock Heng's IPO involves the public issue of 15.34 million new shares and offer for sale of 14.25 million existing shares at 55 sen each. The listing exercise will raise RM8.43 million for the company and RM7.84 million for the vendors.

Of the RM8.43 million proceeds to be raised by the company, RM2.12 million will be used for quarrying operations, RM4 million as working capital, RM1.53 million to defray listing expenses and RM788,000 for its processing plant.

According to its prospectus, the IPO price of 55 sen was arrived at based on pro-forma consolidated net asset per share of 57 sen as at Sept 30, 2009, after the IPO and the utilisation of proceeds.

Additionally, it took into account historical net EPS of 7.19 sen based on group earnings for FY2008 of RM5.75 million and its enlarged issued and paid-up share capital of 80 million shares, translating to a historical PER of 7.65 times. The public tranche of its IPO was oversubscribed 11.2 times.

Hock Heng has been enjoying steady earnings growth in the past few years. The group's net profit jumped 26% to RM5.6 million in FY2007 while revenue increased 18% to RM35.6 million. In FY2008, its net profit grew 3% to RM5.7 million while revenue grew 39% to RM49.6 million.

For the nine months ended Sept 30, 2009, Hock Heng's net profit slipped 10% to RM3.9 million compared with the previous corresponding period due to weaker demand from the soft global economy. Revenue for the period dropped 31% to RM26.4 million.

Nevertheless the company has secured a RM30 million contract to supply stone products for high-end property projects. It is also bidding for RM50 million worth of contracts to supply dimension stone products for high-end properties including condominiums and offices.

The company has been involved in projects like the Ministry of Finance building in Putrajaya, Suria Stonor Condominium, the Kuala Terengganu Airport and granite works at KL Sentral. ■