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HAW PAR CORP: 112% Net Cash + Investments; Base Business for Free

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Excerpts from analyst's report
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Haw Par Corp [HPAR_SP; $1.38 billion market cap; $0.186 million daily value traded] reported strong results for the third quarter [ended September] as revenue increased 3.3% YoY to SG$ 49.7 million as compared to SG$ 48.1 million during 3Q 2015. The increase in revenue came on the back of strong performance from the healthcare segment and improvement in the occupancy rate in the property segment. This increase was partially offset by the 77% decrease in revenue from the leisure segment.

The company reported solid gross margin of 65.1% during the quarter as against 59.6% during 3Q 2015 as the margin of healthcare segment increased further.

Other income which mainly includes dividend income from available-for-sale financial assets increased 15.7% to $26.2 million mainly due to the absence of one-off loss on disposal of available-for-sale financial assets in the prior year period. The increase in gross margin and other income helped the company to improve its net profits from SG$ 34.9 million in 3Q 2015 to SG$ 42.4 million in 3Q 2016, an increase of 21.3% YoY.

Healthcare segment, which accounts for more than 85% of the company's total revenue, again showed a solid performance:

• Revenue increased by 7.1% YoY to SG$ 44.7 million

• Operating margin grew from 31.3% in 3Q 2015 to 37.2% in 3Q 2016 on account of higher sales and improved margins in key markets.

Leisure segment recorded a 77% decrease in revenue due to the closure of Underwater World Singapore ("UWS") in June 2016. Revenue as well as operating profit from property segment both increased 32% YoY as occupancy rates increased amidst softer property prices.

Maintain FY2016 EPS Estimate

We revise our revenue forecasts for FY2016 downwards by 2% from SG$ 197 million to SG$ 193 million due to the lower expected revenue from the leisure segment affected by the closure of Underwater World Singapore ("UWS"). However, we maintain our EPS estimate of SG$ 0.63 per share on account of higher profit margin from the healthcare segment. We forecast a free cash flow of SG$ 93 million for FY2016 which equals a FCF yield of 4.7% based on the current stock price.

We continue to expect a strong performance from the company and expect the top-line to grow at a CAGR of around 11% over the next 4 years. The increase in revenue will be driven mainly by the healthcare segment on the back of its strong brand name, eminent presence in niche underpenetrated product categories, expansion of distribution reach and strong focus on geographical expansion.

Maintaining SG$ 15.00 Price Target

We maintain our 12-month price target of SG$ 15.00 which represents an upside of over 69% from the current levels. Our price target is based on DCF and P/E methodologies. Our DCF based price is SG$ 15.00 which assumes 9.9% WACC and 2.5% terminal growth rate. We apply a 21.4x P/E on our FY2017 EPS estimate of SG$ 0.70 which comes to SG$ 15.00 per share.

-- Ajeya Patil, Analyst,
Evaluate Research

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The mark-to-market value of the company's available-for-sale investments is SG$ 1.59 billion [SG$ 7.2 per share]. The company also has net cash balance of SG$ 610 million which equals SG$ 2.8 per share or 31% of the current market cap. Thus, the investments and cash together are worth nearly SG$ 10 per share which equals 112% of the company's current market cap.

The company's main operating business is expected to earn SG$ 0.30 per share in FY2016. Using a P/E multiple of 20, this business can be valued at SG$ 6.00 per share. This effectively adds up to a per share value of SG$ 16.00.

Based on the current stock price of SG$ 8.89 per share, the base business can be obtained for free providing investors with a comfortable margin of safety as well as a strong downside protection, in our view.

Evaluate Research is an independent equity research firm based in Singapore and India, and provides institutional quality research on global public midcap companies.