

Company Flash

Link Holdings Limited

 8237 HK

Expanding its resort portfolio

- *We met with Link Holdings Ltd. earlier this month to get more updated information on the company's recent operation and future plans.*
- *The company is mainly engaged in the management and operation of Link Hotel in Singapore.*
- *The major renovation on the hotel, as well as the increase in international visitors to Singapore, lay solid ground to Link Hotel's future development.*
- *The Bintan project can not only diversify concentration risk of the company, but also can add growth to future earnings upon the completion of the development.*

Research Team

(852) 2533 3700

research@sbichinacapital.com

Stock Data (8237 HK)

Rating	Not Rated
Price (HK\$)	27
Target Price (HK\$)	n.a.
12m Price Range (HK\$)	1.75-30.6
Market cap. (HK\$m)	7,560.0
Daily t/o (HK\$m)	5.5
Free float (%)	25.0

Source: Bloomberg

A hotel operator in Singapore. Earlier this month, we met with the management of Link Holdings Ltd., to get more updated information regarding its recent business operation and future plans. Link Holdings Ltd. is mainly engaged in the operation and management of Link Hotel, which commenced operation in 2007 and is located in Tiong Bahru in Singapore.

Occupancy rate and room rate set to rise. We believe the occupancy rate and room rate of Link Hotel still have room to improve in the future, given i) the company will carry out a major renovation on Link hotel, which we believe will greatly improve its overall attractiveness, as this will be the 1st renovation since its development 7 years ago; and ii) the increase in the number of international visitors to Singapore sets a solid foundation for the company's hotel business. According to Singapore Tourism Board, total international arrivals to Singapore grew from 8.9m in 2005 to 15.6m in 2013, representing a CAGR of 7.2% during the 8-year period.

Bintan project diversifies concentration risks and add growth to future earnings.

The company has purchased 62 parcels of land with a total area of approximately 425,497 sq.m. in Bintan. These assets include i) the Bintan Resort Land with a total site area of approximately 43,226 sq.m. that had been developed, and ii) the Bintan Raw land with a total site area of approximately 382,271 sq.m. that is vacant and undeveloped. The project will increase the diversity of income source to the company, as the development project in Bintan Raw land is already undergoing, and there will be revenue stream generated from the resort upon its completion of development, and Bintan Resort Land, which has already been developed, can generate stable income for the company upon the completion of the acquisition (2H FY12/14).

Figure 1: Financials and valuation

	FY12/12	FY12/13	1H FY12/14
Total revenue (HKD m)	87.2	78.4	34.2
Revenue growth (YoY)	-	-10.0%	-10.8%
PBT (HKD m)	35.0	28.0	4.6
PBT growth (YoY)	-	-19.9%	-70.1%
Net profit (HKD m)	28.5	23.4	3.2
Net profit growth (YoY)	-	-18.0%	-75.1%
P/E (x)	265.3	323.4	-
P/B (x)	79.8	63.5	117.1

Source: Company data

Please refer to important disclosures at the end of this report

Company Background

Link Holdings Limited is mainly engaged in the hotel operation and management. It commenced operation of its hotel business with the opening of Link Hotel in 2007, which is located in Tiong Bahru in Singapore.

Link Hotel

Link hotel is a four-storey boutique-style budget hotel with 288 guest rooms and suites. The hotel opened in 2007, and was situated along the conservation site and the heritage trail of Tiong Bahru in Singapore. It was originally converted from two separate blocks of conservative public housing units known as “Red Flats” (their exteriors are painted in red). The two blocks are opposite to each other and are connected by the Link Bridge.

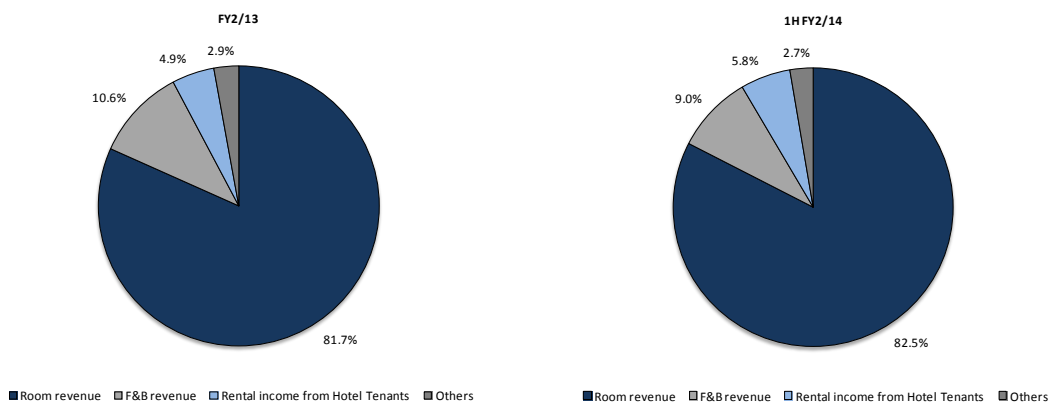
Figure 2. Link Hotel (left) and Link Bridge (right)



Source: Company data

Over the past few years, the company derived all its income from Link Hotel, which generates revenue from 3 sources, namely, room revenue, F&B revenue, and rental income from hotel tenants. Room revenue is its major source of revenue, accounting for 81.7% and 82.5% of its total revenue in FY12/13 and 1H FY12/14 respectively. Other income includes revenue generated from the car parking and laundry services, but that only accounts for a small proportion of its total revenue.

Figure 3. Revenue breakdown by segment in FY12/12 & FY12/13



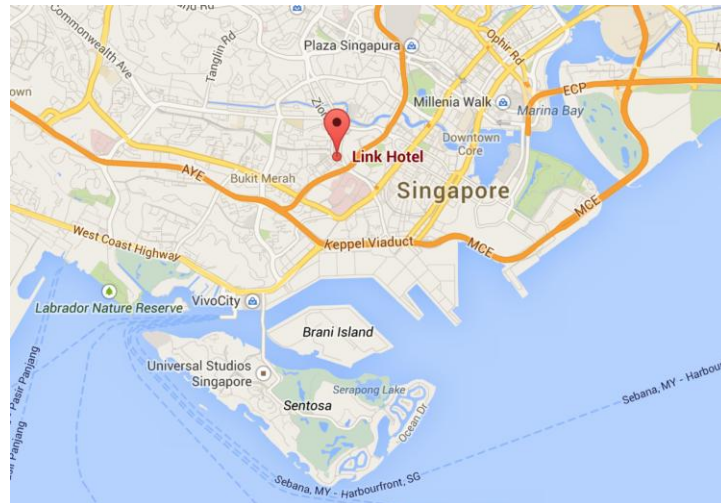
Source: Company data

Figure 4. Major operational data of Link Hotel

	FY12/12	FY12/13
Total Available Room Nights	105,408	105,120
Occupancy rate	65.50%	62.90%
Average room rate (HKD)	1,065.50	968.2
RevPAR (HKD)	698.2	609.4

Source: Company data

Figure 5. Geographic location of Link Hotel



Source: Google map

Bintan Assets

For the purpose of risk diversification, the company has purchased a certain amount of assets in Bintan, the largest islands in Riau Archipelago in Indonesia, through its 80.0% owned subsidiary, PT Hang Huo. These assets includes 62 parcels of land in total area of approximately 425,497 sq.m., comprising of i) the Bintan Resort Land with a total site area of approximately 43,226 sq.m. that has been developed, and ii) the Bintan Raw land with a total site area of approximately 382,271 sq.m. that was vacant and undeveloped.

The acquisition was completed in June 2014, with a total consideration of HKD145.8m. Therefore, it is expected that the company will start to recognize revenue from Bintan Resort Land from 2H FY12/14. Currently, the Bintan Resort is managed and operated by Mr. Thamrin, who is holding 20.0% equity interest of the resort. The company will lease the resort to Mr. Thamrin and will receive a fixed rental income of approximately HKD310,000 per monthly (HKD3.7m per year, which represents 4.7% of its total revenue in FY12/13).

As for Bintan Raw Land, the company is seeking strategic alliances for the operation and management of the resort. We expect the revenue generated from Bintan Raw Land will be significantly higher than Bintan Resort, given the latter accounts for only ~10.0% of the total size of the land.

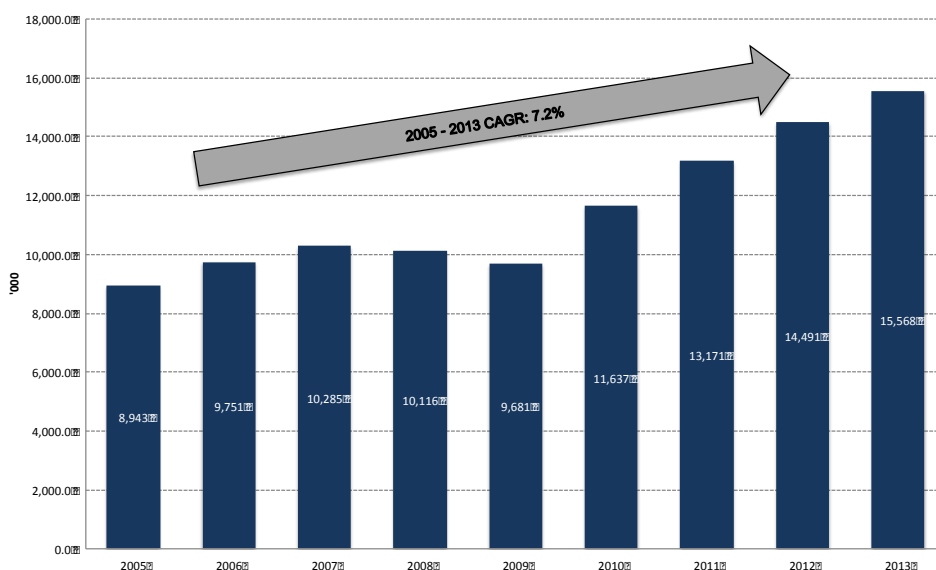
Our view

Occupancy rate and room rate set to rise. In FY12/13, Link hotel commands an occupancy rate of 62.9% and room rate of HKD609.4. In our view, the two metrics, which are the key determinants of the company’s overall profitability, still have room to increase in the future.

Firstly, the company will carry out a major renovation on Link hotel, which we believe will greatly improve its overall attractiveness, as this will be the 1st renovation since its development 7 years ago. The renovation includes a) renovating the exterior wall of the hotel, b) redesigning the interior of the guest rooms, c) increasing the functional and useable area of the hotel to build additional amenities, and d) upgrading the operational system of the hotel. The renovation will kick off in 3Q FY12/14, and is expected to complete in 2H FY12/15. we expect the operating results of the hotel to see improvement from FY12/15.

Secondly, the increase in the number of international visitors to Singapore sets a solid foundation for the company’s hotel business. According to Singapore Tourism Board, total international arrivals to Singapore grew from 8.9m in 2005 to 15.6m in 2013, representing a CAGR of 7.2% during the 8-year period. With the continuous increase in business travel, coupled with the opening of the two integrated resorts, Marina Bay Sands and Resorts World Sentosa, it is expected that the international arrivals to Singapore will maintain its uptrend in the future, and the company will certainly be one of the beneficiaries.

Figure 6. International arrivals to Singapore (2005 – 2013)



Source: Company data

Bintan project diversifies concentration risks and add growth to future earnings. Currently the company only has one revenue source, i.e., from the operation of Link Hotel. That said, we expect there will be more diversity of income source going forward, given that the development project in Bintan Raw land is already undergoing, and there will be revenue stream generated from the resort upon its completion of development. In addition, Bintan Resort Land, which has already been developed, can generate stable income for the company upon the completion of the acquisition (2H FY12/14). As mentioned above, the company will lease the resort to Mr. Thamrin who in turn will pay the company a fixed monthly rental fee of approximately HKD310,000, or HKD3.7m per year, representing 4.7% of its total revenue in FY12/13.

Valuation

At the share price of HKD27.0 per share, the company is trading at a historical P/E of 323.4x for FY12/13, which is higher than the average of its HK-listed peers. That said, we expect the company will see a significant future growth driven by the development of Bintan project and the increase in profitability of Link Hotel.

Figure 7. Peer comparison

Company	Ticker	Mkt Cap (HK\$ m)	3M avg turnover (HK\$ m)	2013 P/E (x)	2014E P/E (x)	P/book (x)	ROE (%)	ROA (%)	Dvd Yield (%)	Net Debt/Total Equity
Link Holdings	8237 HK	7560.00	5.52	323.37	n.a.	117.05	22.36	5.89	0.00	158.7
Jinjiang Hotels	2006 HK	15,083.9	11.47	16.26	13.40	1.56	9.92	3.63	2.10	13.3
Legend Strategy International	1355 HK	180.6	4.76	n.a.	40.59	0.99	-5.38	-4.01	0.00	(12.4)
HK&S Hotels	45 HK	17,186.8	8.43	12.91	27.24	0.49	3.81	3.12	1.50	11.3
Shangri-la	69 HK	36,023.3	30.86	18.27	32.94	0.74	4.09	1.99	0.87	54.2
Asia Standard Hotel	292 HK	1,704.8	0.25	4.88	6.47	0.53	11.44	7.08	1.59	2.8
Rosedale Hotel	1189 HK	420.9	1.57	0.44	n.a.	0.21	20.75	11.41	0.00	1.7
Langham Hospitality	1270 HK	6,593.0	9.14	19.82	13.87	0.61	n.a.	3.89	5.77	55.9
Sino Hotels	1221 HK	2,450.9	0.04	10.55	n.a.	0.65	6.30	6.21	3.15	(5.1)
Dorsett	2266 HK	2,811.3	1.93	7.15	10.72	0.68	9.50	4.06	5.22	94.5
Average*		9,161.7	7.60	11.28	20.75	0.72	7.55	4.15	2.24	24.03

Source: Company data

*Average figure does not include Link Holdings

Figure 8. Per share items

	FY12/12	FY12/13	1H FY12/14
EPS (HK cents)			
- Basic (HK cents)	-	-	1.5
BVPS (HKD)	-	-	0.2

Source: Company data

Figure 9. Ratio analysis

	FY12/12	FY12/13	1H FY12/14
Growth (YoY)			
Revenue	-	-10.0%	-10.8%
Profit before tax	-	-19.9%	-70.1%
Net profit	-	-18.0%	-75.1%
Margins			
Gross margin	69.3%	68.4%	65.9%
Net profit margin	32.7%	29.8%	9.3%
Other ratios			
Return on average assets	-	5.9%	0.9%
Return on average equity	-	21.9%	3.5%
Valuation measures			
P/E (x)	265.3	323.4	-
P/B (x)	79.8	63.5	117.1

Source: Company data

Figure 10. Income statement (HKD m)

	FY12/12	FY12/13	1H FY12/14
Revenue	87.2	78.4	34.2
Cost of sales	(26.8)	(24.8)	(11.7)
Gross profit	60.4	53.6	22.6
SG&A	(24.7)	(25.3)	(14.9)
Other income	10.1	6.8	0.3
Finance costs	(6.6)	(6.5)	(3.0)
Fair value loss on derivative financial instruments	(4.2)	(0.6)	(0.5)
Profit before tax	35.0	28.0	4.6
Income tax	(6.5)	(4.6)	(1.4)
Net profit	28.5	23.4	3.2
Net profit attributable to shareholders	28.5	23.4	3.2

Source: Company data

Figure 11. Balance sheet (HKD m)

	FY12/12	FY12/13	1H FY12/14
Non-current assets			
Property, plant and equipment	100.7	93.0	92.5
Investment properties	0.0	0.0	145.7
Prepaid lease payments	88.6	83.9	84.3
Deposits for acquisition of land and buildings	0.0	64.9	0.0
Total non-current assets	189.3	241.8	322.6
Current assets			
Hotel inventories	0.3	0.4	0.4
Trade and other receivables	9.4	9.8	9.5
Amounts due from related companies	178.8	80.8	0.0
Cash and cash equivalents	27.1	56.4	12.5
Total current assets	215.6	147.5	22.4
Current liabilities			
Trade and other payables	(11.4)	(11.1)	(5.4)
Interest-bearing bank borrowings	(93.7)	(75.3)	(77.3)
Others	(10.2)	(10.3)	(7.8)
Total current liabilities	(115.3)	(96.8)	(90.5)
Non-current liabilities			
Interest-bearing bank borrowing	(187.9)	(170.0)	(163.5)
Others	(7.0)	(3.3)	(26.4)
Total non-current liabilities	(194.9)	(173.4)	(189.9)
Net assets	94.7	119.1	64.6
Equity	94.7	119.1	64.6

Source: Company data

Figure 12. Cash flow statement (HKD m)

	FY12/12	FY12/13	1H FY12/14
Net cash from operating activities	34.0	30.7	3.0
Net cash used in investing activities	(23.6)	29.5	(36.3)
Net cash used in financing activities	(8.5)	(10.2)	(12.7)
Net increase in cash and cash equivalents	1.8	50.1	(46.0)
Cash and cash equivalents at beginning of year	5.8	8.0	56.4
Effect of exchange rate changes on cash and cash equivalents	0.4	(1.7)	0.4
Cash and cash equivalents at end of year	8.0	56.4	10.9

Source: Company data

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