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- **Looking** to establish formal dividend policy
- **Possible** listing of M&E arm in two to three years
- **Construction** to be main driver in FY19

Crest Builder hopes to maintain strong results

by
Stephanie Jacob

Crest Builder Holdings Bhd has seen two years of strong results and is optimistic that it will continue to deliver a strong performance in the financial year ending Dec 31, 2019 (FY19).

As such, it hopes that this will be the catalyst to draw more investors to the counter, which management believes is undervalued.

"A lot of people have been telling me that I should privatise the company because we are way too cheap. We are getting more undervalued because the net tangible asset value keeps going up but our share price remains stagnant.

"I think perhaps the retail investors are looking at stocks which are more sexy, or for those with more volatile movements (where one can make a quick profit)," Crest Builder group managing director Eric Yong tells *FocusM*.

The company's shares have risen from 79 sen in November last year to RM1.15 on March 20. Interestingly, the company's net asset per share stands at RM2.87.

However, he points out that since its listing back in 2013, Crest Builder has always been a dividend-based stock and that such stocks are generally "very stable".

Following the recent good run, Yong wants to draw investors who are interested in stable returns. To this end, management is looking to formalise a dividend policy, having consistently paid dividends over the last several years. It hopes this will help draw more long-term investors to the counter.

"Historically, we have been doing an informal (payout) policy of 25% of profit after tax. This year we are looking to formalise a minimum of 20% of profit after tax.

"It (paying dividends) is something that we have been doing for the last 15 years, so we might as well formalise it," he explains.

Crest Builder has also been undertaking share buybacks over the past several months to show management's confidence in the company's prospects.

"We want to tell people that our shares are deeply undervalued and the company itself is willing (to put money into it)," emphasises Yong.

He is not interested in taking the company private at this point in time as he wants to develop and expand it. The company, he says, is open to moving beyond projects in the Klang Valley.

It is open to bidding for jobs in Penang and Ipoh, and even potentially venturing further afield to Vietnam and Thailand.

However, Yong says the company is not setting any firm targets and it does not want to be pressured into pursuing deals which might not be ideal.

Crest Builder's property division contributed the lion's share in FY18, but its construction arm is expected to be the main driver in FY19

Potential listing of M&E division

Interestingly, management is considering spinning off its mechanical and engineering (M&E) arm for a potential listing in the next two to three years. The segment currently sits under the construction division.

Unlike traditional construction materials like steel bars or concrete and interior fittings like cupboards and shelves, M&E solutions are still evolving, Yong says.

"In terms of M&E, like air-conditioning systems, firefighting solutions, electrical solutions and lift systems, people are looking at (creating) better systems, more automation and so on. We have noticed a lot of focus in this area and the margins are a lot better also. So this area is rapidly expanding," he explains.

In the nearer term, Yong believes the company will be able to continue delivering a good performance in FY19.

"We achieved record results in FY17 which surpassed all past periods, and then in FY18, we surpassed that to make it our new record year. The construction and property segments remain our bread and butter, and as of FY18, contributed 41% and 48% to our results respectively.

"In FY19, while revenue growth might taper slightly, we are hopeful that our profit number will be similar (to FY18's). We committed to a 4.5 sen dividend per share in FY18, and are targeting a minimum of four sen for FY19," says Yong.

A reason for the potential lower revenue growth is the completion of several key projects in FY18, including the Alam Sanjung development and Residensi Hijauan in Batu Tiga, Shah Alam.

Even so, Crest Builder should still book some revenue from these projects in FY19.

"We have some unsold units worth about RM80 mil and we target to finish selling them this year. We also did (delivered) vacant possession this January, so our 1QFY19 results will see the impact (from sales from these projects)," Yong explains.

The net tangible asset value keeps rising, but our share price is stagnant, says Yong

Construction to be driver

He expects the construction segment to become the company's key driver in FY19. He says the company is currently sitting on a unbuilt orderbook of about RM1.1 bil which should keep Crest Builder busy for the next two years.

The company has also earmarked "quite a few projects" it hopes to secure in FY19 and set itself a replenishment target of RM600 mil this year. It is off to a good start, having secured a RM99.6 mil construction job in January.

The deal with Techvance Properties Management Sdn Bhd is for construction works on a 26-storey hotel in Kuala Lumpur over 27 months from February. Management says the job is expected to start contributing to earnings in FY19.

Yong says the RM600 mil target is higher than the RM500 mil for FY18, which Crest Builder ultimately surpassed to hit RM620 mil. The reason the company is not setting a higher target is because it does not want to over-extend itself.

He is also cautious about the jobs he tenders as he wants to avoid partners which might later run into difficulties.

"In the past, our selection criteria had been very strict … we do not want to partner (companies with) projects that might not sell well or which may not be able to pay us, because I am answerable to my shareholders," he stresses.

Aside from tendering for outside jobs, the construction arm has also secured a contract from Crest Builder's property division for Latitude 8.

The mixed project is a transit oriented development (TOD) which will sit atop the Dang Wangi LRT station. Crest Builder has been doing some preparatory work and hopes to commence the full works in April.

Improving sentiment

Yong says in general, private sector contracts account for over 90% of all Crest Builder's tenders. He adds that the company had largely refrained from tendering for government contracts since late 2017, which helped the company amid weak sector sentiment.

"I personally thought that the general election would happen late in 2017, but it only came in 2018. We had been taking a back seat (in terms of tendering for government jobs), and had been very focused on the stronger private sector projects.

"We tendered for projects that either had very strong branding or strong sales (potential), so our cashflow and collection would not be affected by bad sales later on," he says.

Yong explains that these were either projects like the South Brooks construction project in Desa Park City which garnered plenty of interest from day one. The company also focused on construction projects that were not for sale, such as hotels and office towers.

"(We focused) on projects like the Capri Hotel or the Oceanworld Convention Centre which are not for sale, where the client had already earmarked financing or funding for it," he says.

Crest Builder will continue to utilise the strategy over the near term, says Yong. "There is a calculated risk that comes with the current weaker economic sentiment, and I think every contractor out there is worried about cashflow management," he argues.

Nonetheless, he believes that sentiment continues to improve and he expects it to be significantly better in the second half of the year. He also hopes the government will start announcing some new projects soon. FocusM

Crest Builder Holdings Bhd

CONSTRUCTION

KEY BOARD MEMBERS AND MANAGEMENT
Tengku Datuk Sulaiman Shah Tengku Abdul Jalil Shah (chairman)
Eric Yong Shang Ming (group managing director)

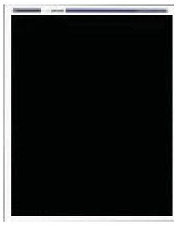
MAJOR SHAREHOLDER
SC Yong Holdings Sdn Bhd
39.03%

MARKET CAP
RM180.4m
Share price (March 20)
RM1.15
52-week high (March 19)
RM1.20
52-week low (Nov 5, 2018)
79 sen

FINANCIAL RESULTS
(FY18 ended Dec 31, 2018)
Revenue
RM595.4m
Net profit
RM72.2m

One-year price chart

Source: Bloomberg



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SUMMARIES

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