

## Chip Eng Seng

Re-initiating Coverage  
24 April 2014

## Overweight

Current Price	S\$0.77
Fair Value	S\$1.04
Up / (downside)	35%

## Stock Statistics

Market cap	S\$487.9m
52-low	S\$0.635
52-high	S\$0.830
Avg daily vol	968,208
No of share	642.0m
Free float	65%

## Key Indicators

ROE 14F	28.5%
ROA 14F	12.1%
P/BK	0.97
Net gearing	97%

## Major Shareholders

Lim Tiam Seng	12.1%
Lim Tiang Chuan	6.9%
Tan Yong Keng	8.1%

## Historical Chart



Source: Bloomberg

## Expecting a big year ahead

- **We re-initiate coverage with an Overweight recommendation and a S\$1.04 fair value**, based on SOTP of its property development and construction business. We value its construction business at 6x FY14 PER, in line with its peers in the construction sector. Meanwhile, we apply a 30% discount to RNAV (property development, property investments and hotel). Furthermore, it has consistently paid out 4 Singapore cents dividend over the last four years, this implies an attractive 5.3% dividend yield at current prices.
- **Record revenues to be recognised this year.** As per IFRS 115, the group will recognise revenues and related costs upon TOP for 3 projects in FY14. They include Alexandra Central, Belvia, and 100 Pasir Panjang and which we estimate would contribute around 65% of the record S\$1.3b revenues in FY14. It will also fully recognise 40% of profits from Belysa.
- **Riding on firm Australian property demand.** It successfully launched its first property in Australia back in 2012 with the 33M at 33 Mackenzie Street, Melbourne and is currently developing Melbourne's tallest CBD residential building – the Tower Melbourne. The 71 floors Tower Melbourne was 99% sold as at the end of 4Q13. The group is expected to launch another new development project in Doncaster, Australia this year.
- **Hotel business to provide recurring revenues.** Its hotel at Alexandra Central is expected to be completed in mid-15 and will begin to provide a steady recurring revenue stream to the group from 2H15 onwards. Although we estimate it will provide only around 5-10% of total group revenues in our forecast period, we believe it is a milestone for the group's effort to diversify into the hospitality sector.
- **Construction business still healthy.** Its construction business remains a stable business with a healthy order book of S\$520m as at end 4Q13. Although order book is slightly lower than the S\$575m as at end 4Q12, the group should benefit from the S\$5.2bn-S\$5.5bn building works estimated for 2014 by the Building and Construction Authority of Singapore (BCA). In the medium to long term, as the supply-demand balance stabilises, the government is expected to moderate its building program but remains committed to providing 700,000 new homes by 2030. This should still continue to benefit Chip Eng Seng.

## Key Financial Data

(\$ m, FYE Dec)

	2012	2013	2014F	2015F	2016F
Sales	617.1	502.5	1,261.0	780.3	417.2
Gross Profit	129.7	89.2	252.2	156.1	83.4
Net Profit	81.3	73.4	180.8	98.9	43.0
EPS (cents)	12.3	11.3	27.9	15.3	6.6
EPS growth (%)	(34.2)	(7.9)	146.4	(45.3)	(56.5)
PER (x)	6.1	6.6	2.7	4.9	11.3
NTA/share (cents)	69.6	76.9	93.1	101.2	102.3
DPS (cents)	3.9	4.0	4.0	4.0	4.0
Div Yield (%)	5.2	5.3	5.3	5.3	5.3

Source: Company, NRA Capital forecasts

Joel Ng

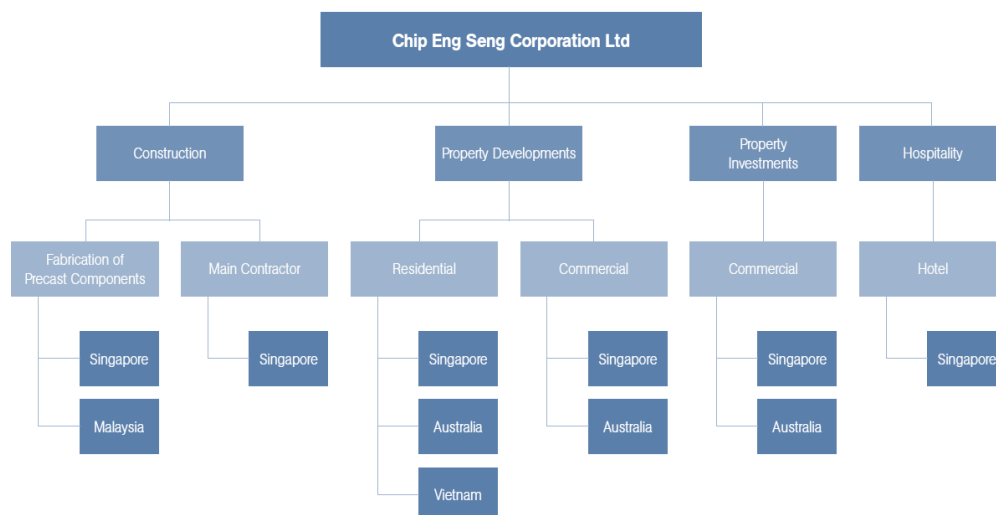
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## Company Background

Chip Eng Seng (CES) is one of Singapore's leading construction and property groups. The group's construction business is undertaken by Chip Eng Seng Contractors (1988) Pte Ltd (CESC) and CES Engineering & Construction Pte Ltd (CESE) while CEL Development Pte Ltd (CEL) is the property investment and development arm. It was listed on Singapore's main board in 1999.

Figure 1 Group Business and Geographical Segments



Source: Company

**Main contractor with strong track record.** CESC is a leading main contractor with design and build capabilities. It is registered with the Building and Construction Authority of Singapore (BCA) under the A1 classification for general building construction. This is the highest qualification that allows CESC to tender for public sector projects of unlimited value. CESC has undertaken a broad spectrum of construction projects from both public and private sectors including HDB projects, columbarium, residential and commercial properties, shophouses, institutional and industrial buildings and precast projects. The pre-cast activities are handled by CES-Precast Pte Ltd (CESP) which is registered with BCA under the L6 classification, allowing CESP to tender for public sector projects of unlimited value.

**Forte in building Singapore's public housing.** Amongst its most notable projects, it was the main contractor for Pinnacle @ Duxton, one of its largest projects and Singapore's tallest public housing. This was a major milestone considering that it was HDB's first 50 story integrated housing development with special features such as sky bridges and sky gardens.

Figure 2 Pinnacle @ Duxton, Singapore's Tallest Public Housing



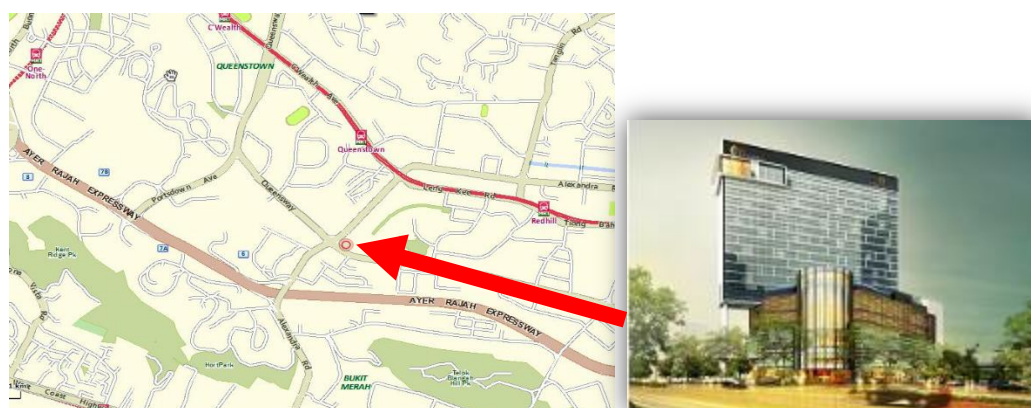
Source: Company

# Chip Eng Seng

**Diversification into property development and investments.** CEL has been actively developing properties in Singapore either on its own or with joint-venture partners. Its projects include residential, commercial and industrial properties and within the residential sector, CEL has developed a wide spectrum of projects ranging from public housing, mass market private condominium to high-end condominiums in the prime districts. Currently, CES has a portfolio of investment properties comprising shop houses, small commercial building and light industrial building.

**Tapping on growing tourism and business activities.** The group was awarded an 8,000sqm land at the junction of Alexandra Road and Jalan Bukit Merah for the development of a hotel and retail mall. The 450-room 4 star hotel and the 116 units retail mall is expected to open in 2015. The hotel will be managed by Park Hotel Group. The hotel is situated at a popular junction with shopping malls including Queensway Shopping Centre, Ikea and Anchor Point.

**Figure 3 Queensway Hotel located at a popular junction**



Source: Company

**Building its brand name down under.** CES has also brought its development experience to the Australian market. It successfully launched a 338 units residential property back in 2012, the 33M in Melbourne Australia, and has begun development of a 588 units residential tower in the heart of Melbourne's CBD district, the Tower Melbourne. Tower Melbourne is expected to be completed in FY17 and has already achieved 99% sales as at end 4Q13.

**Figure 4 Tower Melbourne standing out in the CBD**



Source: Company

## Projects and land banks

**Table 1 Current Construction Projects**

Project	Type	Units
Building works at Tampines Neighbourhood 4 Contract 27	HDB	289
Building works at Jurong West Neighbourhood 6 Contract 31	HDB	700
Building works at Bukit Panjang Neighbourhood 4 Contract 15	HDB	862
Building works at Bukit Batok Neighbourhood 1 Contract 13 & Neighbourhood 2 Contract 23	HDB	1232
Building works at Yishun Neighbourhood 5 Contract 2	HDB	834
Fulcrum at Fort Road	Condominium	128
100PP at Pasir Panjang	Commercial building	66
Belysa at Pasir Ris	Executive Condominiums	315
My Manhattan at Simei	Condominium	301
Belvia at Bedok Reservoir Crescent	Design, Build & Sell Scheme	488
Junction Nine and Nine Residences at Yishun	Retail and Condominium	146 – Retail, 186 - Condo

Source: Company

**Table 2 Current Property Developments**

	Location	Description	No of units	Tenure	Land area (sqft)	Plot Ratio	Expected TOP
<b>Singapore</b>							
Belysa	Pasir Ris Drive 1/Elias Road, Singapore	Executive Condo	315	99	162,989	2.1	2014 - 1H
100 Pasir Panjang	No 98 and 100 Pasir Panjang Road, Singapore	Light Industrial Building	66	Freehold	54,201	2.5	2014 - 1H
My Manhattan	25, 27, 29, 31, 33, 45 Simei Street 3, Singapore	Condominium	301	99	162,989	2	2014 - 1H
Belvia	Bedok Reservoir Crescent, Singapore	Design, Build & Sell Scheme	488	99	179,414	3	2014 - 2H
Fulcrum	No 29 to 59 (odd numbers only) Fort Road, Sing	Condominium	128	Freehold	47,878	2.1	2015
Alexandra Central	321 Alexandra Road	Shopping Mall - Retail	116	99	93,080	1	2014
Nine Residences	12, 14, 16, 18 Yishun Avenue 9, Singapore	Condominium	186	99	176,200	1.0	2015 – 2H
Junction Nine	12, 14, 16, 18 Yishun Avenue 9, Singapore	Shopping Mall - Retail	146	99	106,788	1.0	2016 – 1H
<b>Australia</b>							
Tower Melbourne	150 Queen Street, Melbourne, Australia	Residential Apartment with Amenities	588	Freehold	9,860		2017

Source: Company

**Table 3 Investment Properties**

Property	Location	Description	Tenure
2 Adjoining units of 3-story shophouses	86, 86A, 86B Tanjong Pagar Road, Singapore	Shops and Offices	99 yrs
A Part 2/Part 4 Storey Commercial Building comprising an eating house and lock-up shop on the 1st storey and offices on the upper storey	161 Geylang Road, Singapore	Shops and Offices	99 yrs
Retained units in a 6 storey light industrial building with a basement carpark	69 Ubi Crescent, Singapore	Light Industrial Building	60 yrs
3 Adjoining Units of 2.5 Storey shophouses with a 4 storey rear extension comprising a restaurant on the 1st story and a 27 room boarding house on the upper storey	115 Geylang road, singapore	Boarding Hotel	Freehold
San Centre 12 Storey office building	171 Chin Swee Road	Office	99 yrd
11 Storey office building	420 St Kilda Road, Melbourne, Australia	Shops and Offices	Freehold

Source: Company



## Singapore construction industry outlook

**Construction Industry to expect another strong year in 2014.** According to the BCA, total spending for both public and private sector construction works is expected to be within the range of S\$31-38bn, with around 60% made up from the public sector and the rest from the private sector. This is significant as it comes after a very strong 2013 where construction demand reached a historical high of S\$35.8bn, exceeding the upper-bound projection of S\$34bn in 2013 by 5%.

						Min	Max
S\$bn	2009	2010	2011	2012	2013	2014F	2014F
<b>Both sectors</b>	<b>22.5</b>	<b>27.6</b>	<b>35.5</b>	<b>30.8</b>	<b>35.8</b>	<b>31.1</b>	<b>38.0</b>
Building Work	13.5	24.6	28.8	26.0	29.1	22.2	27.7
Residential	6.7	11.5	15.3	11.9	16.5	9.0	10.7
Commercial	1.7	3.2	4.2	3.0	4.0	2.5	3.2
Industrial	2.0	4.8	6.2	6.4	5.0	4.3	6.2
Institutional & Others	3.1	5.0	3.0	4.7	3.6	6.4	7.6
Civil Engineering Work	9.0	3.0	6.7	4.8	6.8	8.9	10.3
<b>Public Sector</b>	<b>13.9</b>	<b>8.6</b>	<b>15.3</b>	<b>9.5</b>	<b>14.9</b>	<b>19.0</b>	<b>22.0</b>
Building Work	5.7	6.4	9.1	7.4	9.5	10.7	12.7
Residential	2.8	2.8	6.2	3.3	6.6	5.2	5.5
Commercial	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Industrial	0.2	1.1	0.5	0.3	0.3	0.7	1.5
Institutional & Others	2.6	2.3	2.4	3.7	2.5	4.7	5.6
Civil Engineering Work	8.2	2.2	6.1	2.1	5.3	8.3	9.3
<b>Private Sector</b>	<b>8.6</b>	<b>19.0</b>	<b>20.2</b>	<b>21.2</b>	<b>21.0</b>	<b>11.9</b>	<b>16.1</b>
Building Work	7.8	18.2	19.6	18.6	19.6	11.3	15.1
Residential	3.9	8.7	9.1	8.5	10.0	3.7	5.2
Commercial	1.6	3.1	4.2	2.9	3.9	2.4	3.1
Industrial	1.8	3.7	5.7	6.1	4.6	3.5	4.8
Institutional & Others	0.5	2.7	0.6	1.0	1.1	1.7	2.0
Civil Engineering Work	0.8	0.8	0.6	2.7	1.4	0.6	1.0

Source: BCA

**Healthy construction demand beyond 2014.** From 2015 to 2016, average construction demand is projected to be around S\$25-34bn per year, according to BCA forecasts. 60% of demand will be coming from building projects while the rest will be from civil engineering projects. More specifically related to the group, the forecasts for public residential works – which remains the group's strengths in construction - will remain healthy at around S\$5.2-5.5bn, while the private sector residential works will see a slowdown.

**Affordable housing for all.** HDB launched a record 77,000 (Built-to-order) BTOs in the past 3 years, helping to stabilise the supply-demand balance which has caused HDB resale prices to double in a 6-year period. Going forward, the government remains committed to building 700,000 new public and private homes by 2030. 29% or 200,000 homes will be completed by 2016, which includes 90,000 private units and 110,000 public units. Although there are worries about an oversupply issue as the total number of homes reach 1.9m by 2030, we think that the demand side will be driven by 1) increasing overall population according to government projections and 2) the number of old flats (an estimated 200,000) that will be over 30 years old by 2015 which would require new housing if they are under the Selective En bloc Redevelopment Scheme.

**Other major projects in construction sector.** As outlined in Singapore's latest master plan, major projects over the next few years include Project Jewel – a mixed development at Changi Airport, a new Terminal 4, a planned Terminal 5, new transshipment port in Tuas, expansion of the MRT network, upgrading of existing MRT stations and the new 21km North-South Expressway.

## Singapore residential property outlook

**Short-term will be muted.** After 8 rounds of cooling measurement, we expect to see more weakness in Singapore's private property sector for the short term with the following factors 1) QE tapering and rising interest rates will put downward pressure on demand as borrowing costs start to increase 2) the high number of new residential completions in the next three years (200,000 new supply units by 2016) will help ease the demand and 3) the government's new cooling measures, specifically the Total Debt Servicing Ratio (TDSR) that has limited the purchasing power of investors.

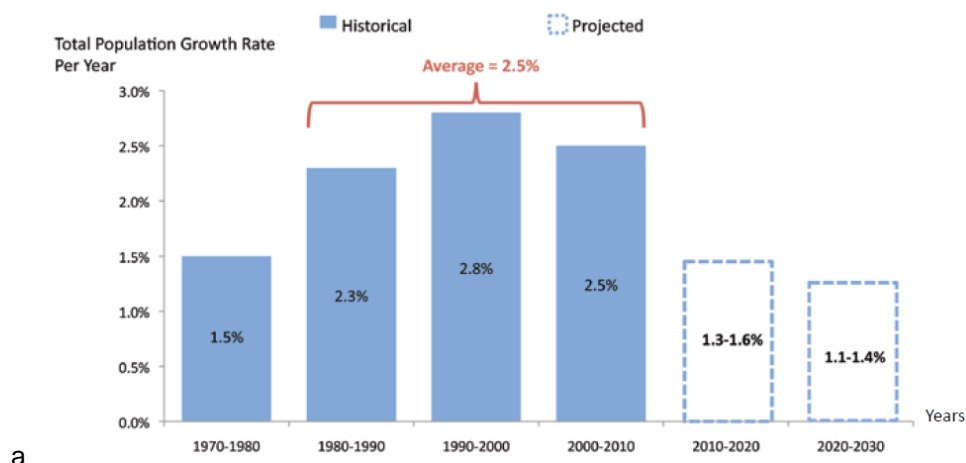
URA Pipeline supply of private and executive condominiums			
Expected year of completion	2014	2015	2016
Private residential units	19,302	19,727	26,355
Executive condominiums	1,961	3,519	4,955
<b>Total</b>	<b>21,263</b>	<b>23,246</b>	<b>31,310</b>

Source: URA

**Longer-term outlook will benefit from stabilisation of housing prices.** We think that if property prices stabilise in the medium-term, there is the possibility that the government will slowly reduce the cooling measures as supply and demand fundamentals start to balance out and as prices ease to a more sustainable level. The finance minister, Tharman Shanmugaratnam, has also reiterated that the government will not be engineering a hard landing, meaning that the main tool they have used previously to nip the increase in home prices over the last four years will be adjusted when necessary when prices are at a more sustainable level.

**Main demand from population growth.** Singapore's total population is expected to grow by between 7.4% and 11.1% by 2020 and increase by between 20.4% and 27.8% by 2030. The government has also indicated that it plans to build up to 700,000 new homes by 2030 (to a total of 1.9m housing units from the current stock of 1.2m units), meaning a 58% increase compared to the 27.8% higher limit increase in population. At first glance, this might lead to concerns on oversupply if we assume that 25% of the increase in population will require new houses, which would be around 375,000 new housing units. This would mean an oversupply of 325,000 units. However, we have to take into account the existing 200,000 housing units that will be more than 30 years old by 2015 and more than 400,000 housing units that will be over 30 years old by 2030. These older units might be placed under the Selective En Bloc Redevelopment Scheme (SERS) and which will require replacement. Hence, we believe that long term fundamentals still remain positive.

Figure 5 Rate of Total Population Growth annually (%)



Source: NPTD's estimates from Population White Paper

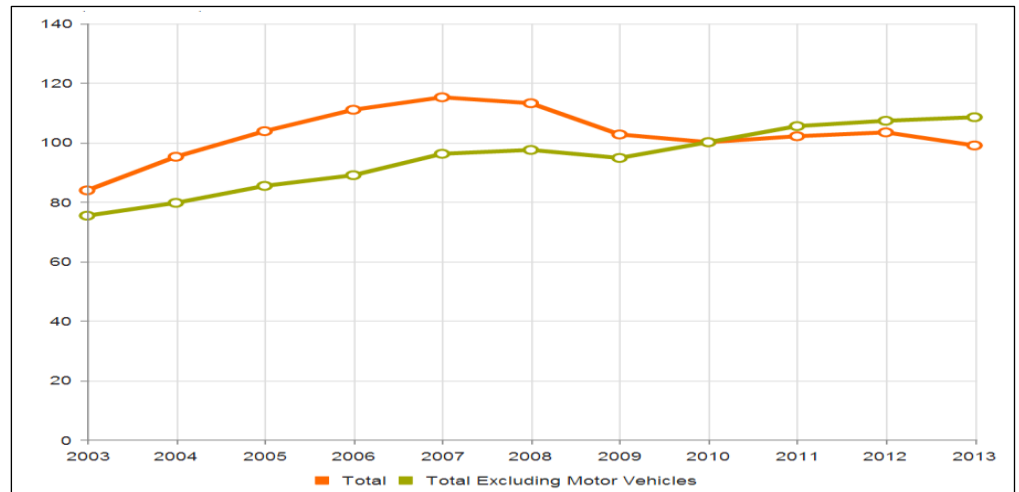
**Many opportunities for developers.** There will be many new opportunities for developers as the public infrastructure is expanded and new towns and estates are built. First, the rail network length will be doubled to 360km by 2030 which would add more land for development. Five more lines will be built: the Downtown Line, Thomson Line, Eastern Region Line, Cross Island Line and Jurong Region Line. In addition, new towns and estates will be built including Bidadari, Tampines North and Tengah.

## Singapore commercial and hospitality property outlook

**More shopping options this year.** An estimated 2.2m sqft of new retail lettable area is expected to come on stream in 2014, representing a 38% yoy increase. In 2013, 1.6m sqft of retail space was launched, with the major ones including JEM and Westgate in the west and Bedok Mall in the East. Major malls to be opened in 2014 includes Orchard Gateway, 268 Orchard, One KM, Big Box and retail space at the new Sports Hub that will open in June this year.

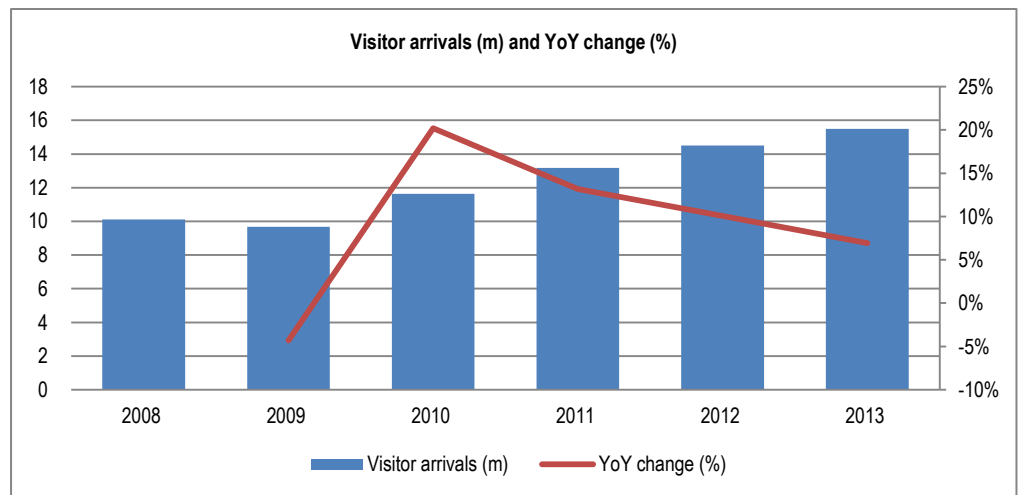
**Retail space supply to moderate.** Singapore retail sales index (excluding motor vehicles) increased 1% yoy to 111, much slower than the 7.8% and 2.6% increase in 2011 and 2012, respectively. As a result of the slower retail sales increase in 2013, average rentals declined slightly by 1% yoy in 2013. However, malls which underwent asset enhancement initiatives saw some improvements in their rentals. Going forward, according to Knight Frank estimates, supply is expected to slow down in 2015-2018 to about 600,000 sqft of lettable area per year. Thus, we think that the supply-demand balance should remain fairly stable, especially for those malls with good traffic flow (e.g. mixed developments, next to MRT stations) should continue to see their average rents remain resilient.

**Table 4 Retail Sales Index (Constant Prices)**



Source: Singapore Department of Statistics

**Hotel sector to benefit from wide range of attractions.** With Singapore strategically located in the Asia Pacific region, the country continues to be a popular transit hub. Together with the addition of the upcoming Terminal 4, Singapore International Cruise Terminal (ICT), and popular attractions such as the two Integrated Resorts (including Universal Studios and Marine Life Park), Gardens by the bay, River safari at the Singapore Zoo and F1 Singapore Grand Prix. Singapore will continue to attract tourists especially from within the ASEAN region and China. In addition, the Singapore Sports Hub is slated to open in June 2014. Business Monitor International (BMI) expects inbound travel to Singapore to grow at a slightly slower pace of around 7-8% per year until 2017, compared to 20% yoy growth in 2010.

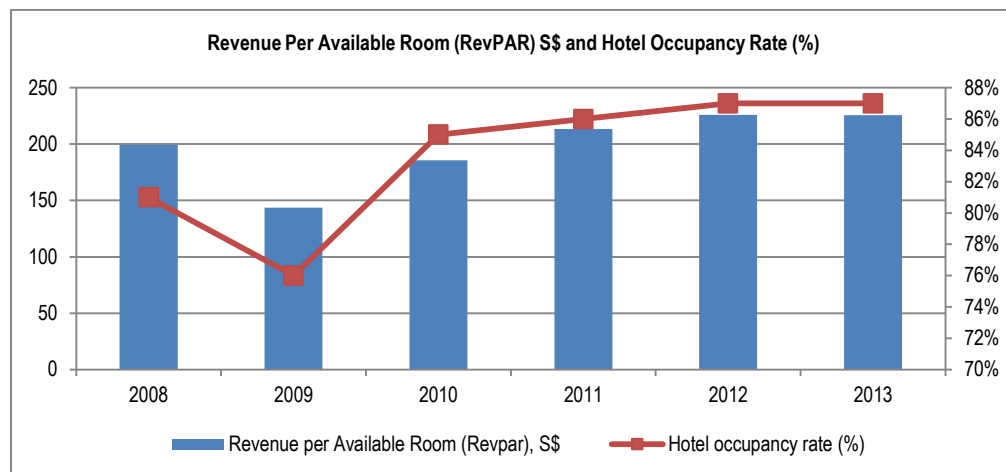


Source: STB

**Occupancy rates remain stable.** Singapore's standard average occupancy rate have recovered healthily from its low of 76% during the global financial crisis in 2008-2009. Since then, it has increased 9% pts yoy in 2010 and around 1% pts yoy from 2011-2012 to stabilise around 87%. We expect occupancy rates to stay around the 80% to 90% range, with the Luxury and Upscale properties being more resilient while there is some pressure in the Mid-Tier and Economy tiers due to the supply of new hotel rooms in 2014 and 2015. Average Revenue Per Available Room (RevPAR) has also remained around the S\$220 levels over the last two years. Overall, we think that



the hotel industry will remain stable given the rising incomes of countries in the ASEAN region will help sustain the influx of tourists to Singapore.

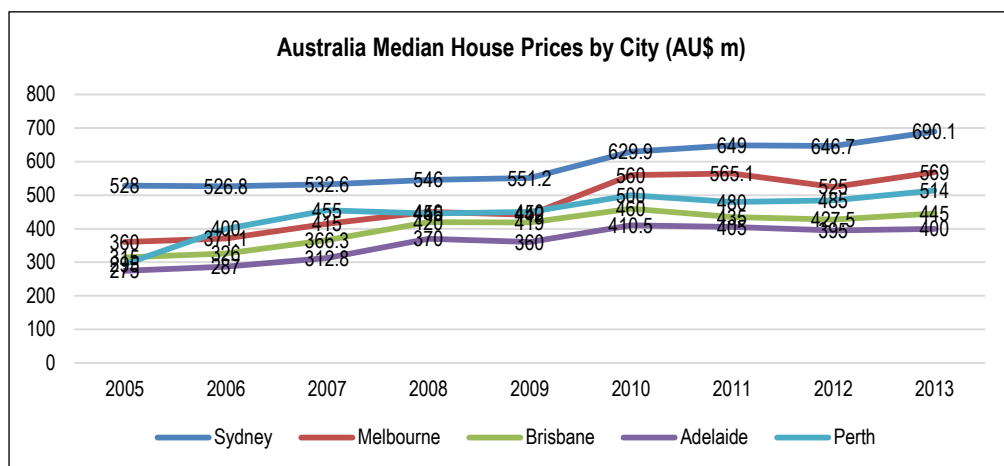


Source: STB

## A quick snap shot of Australian property

**Australia growth driver shifts from mining to property.** Australia's mining industry has benefitted largely from China's rapid economic growth and demand for natural resources, mostly iron-ore, gold and coal. Asian countries account for more than half of total exports, with China alone accounting for 27% of total exports. Australia's exports reached an all-time high of AU\$30bn for the month of February 2014. However, slowing growth in China has resulted in softening commodities prices and slowdown in investments. Business Monitor International forecasts that Australia's mining sector will grow at 4% annual average rate until 2018, much slower than the 22% annual growth rate over the last decade. This has prompted a shift of investments into the property development segment.

**Foreign investments in Australian properties.** Although investment from overseas eased 13% yoy to AU\$17bn in 06/2013, we think that the residential market will start to strengthen again, given the attractive official interest rate of 2.5%, potential for further cuts by the Reserve Bank of Australia to devalue their currency and the Chinese government's introduction of new restrictions on buying properties locally, which would lead to an outflow of investment to countries such as Australia. Chinese investment already make up the biggest share in Australian properties, surging 42% yoy to AU\$5.9bn in 2012-2013. Among the cities in Australia, Sydney and Melbourne remain the most popular cities for Chinese investors. Going forward, forecasts by BIS Shrapnel indicates that Sydney, Perth and Brisbane will be expected to record the strongest growth until June 2016. However, Perth is expected to slow down thereafter because of the decrease in investment in the resource sector.



Source: Real Estate Institute of Australia

## Key Risks

**Singapore policy risks.** CES remains vulnerable to policy risks inherent in the market it operates. The latest property measures in Singapore will negatively impact the profit margins and profitability of existing launches and future launches. However, management experience and prudence in land banking has ensured that CES' exposure is contained and group projects will remain profitable despite downside risks to property prices.

**Rising labour costs.** Rising labour costs have affected the construction sector as a result of higher levies and tighter rules on hiring foreign workers. Levy hikes are expected to increase between S\$15 to S\$200 in July this year for each foreign worker in the services, manufacturing, construction and marine sectors. In addition, firms with more than 25 employees must advertise vacancies for jobs paying less than S\$12,000/month on a new jobs bank for at least 14 days. The government has however rolled schemes to boost productivity and cost-efficiency, including the Construction Productivity and Capability Fund (CPCF).

**Funding and interest rate risks.** The lower interest rate environment has benefited the property markets over the past few years. With interest rates expected to rise, a higher-than-expected increase in rates will lead to higher financing costs and ultimately affecting margins. In addition, sales of projects could be affected as the higher borrowing costs affect customer's ability to finance property purchases.

**Australia policy risks.** Regulatory changes to limit foreign investments in the property sector can affect future developments of the group's existing assets in Australia. There has been increasing concerns on foreign investment in the property sector in Australia which has been raised from issues such as the rapid increase in prices and affordability for citizens. Currently, Australia has strict rules where foreign investors are not allowed to buy established housings as investment properties. However, foreign investors are allowed to buy new housing units, off-the-plan properties under construction or yet to be built, or vacant land for development.

## Management

**Lim Tiam Seng – Executive Chairman.** Mr. Lim is the founder of the group. He has more than 40 years' experience in the construction business and possesses considerable experience in setting up corporate objectives, strategies and making investment decisions for the group. He is the patron of Yio Chu Kang Citizen's Consultative Committee and has won several awards for his public service rendered to the nation, comprising the Public Service Stars PBM in 2007 and BBM in 2013.

**Lim Tiang Chuan – Executive Deputy Chairman.** He is responsible for the group's overall operation and business expansion. Mr Lim initially began in the construction division in 1982 and became the group's executive deputy chairman in 2007.

**Raymond Chia – Executive Deputy Chairman and Group CEO.** He is responsible for the group's overall strategic operations and investment decisions. Prior to joining CES, he was an administrative executive in T.C. Sin and Associates and senior officer in the former Tat Lee Bank Ltd. He holds a Bachelors Degree in Economics and Finance from Curtin University and a Masters Degree in Finance from RMIT. He is also the chairman of Seacare Properties Pte Ltd, a wholly owned subsidiary of Seacare Co-operative Ltd and a director of Seacare Holdings Pte Ltd.

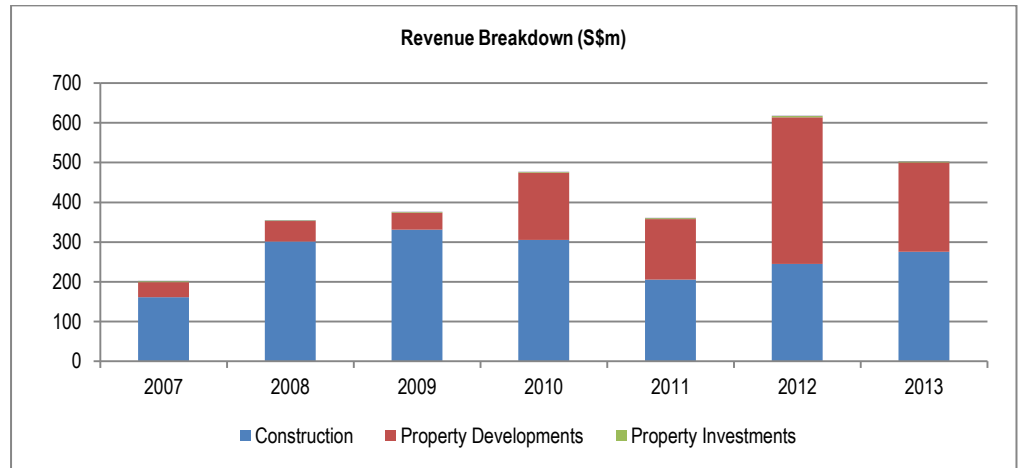
**Hoon Tai Meng – Executive Director.** He is responsible for assisting the board in the business operations and corporate matters of the group. He was previously an independent director of the group. He was also previously a partner with KhattarWong and holds a Bachelor of Commerce in Accountancy from Nanyang University and a LLB (Honours) from the University of London. Mr Hoon is a Fellow Chartered Institute of Management Accountants (UK), a Fellow Certified Public Accountant in Singapore and a Barrister-At-Law (Middle Temple). He also sits on the boards of other public and private companies.

**Dawn Lim – Executive Director.** She is responsible for assisting the board in the business operations of the group. Prior to joining CES, she worked as a senior architect in Melbourne, Australia. She holds a Bachelor Degree in Architecture (Honours) from Deakin University, Melbourne, Australia.

**Law Cheong Yan – Chief Financial Officer.** He is responsible for the financial and management accounting, taxation, treasury as well as investor relations. In addition, he also helms the administrative and human resource functions of the Group. Prior to joining CES, Mr Law spent more than 9 years in China and the US managing the businesses of several Singapore companies' overseas subsidiaries. Mr Law was also the Group Financial Controller from June 1999 to February 2004 and an auditor with an international accounting. Mr Law holds a Bachelor of Accountancy (Hons) Degree from Nanyang Technological University. He is also a member of ISCA and CPA Australia.

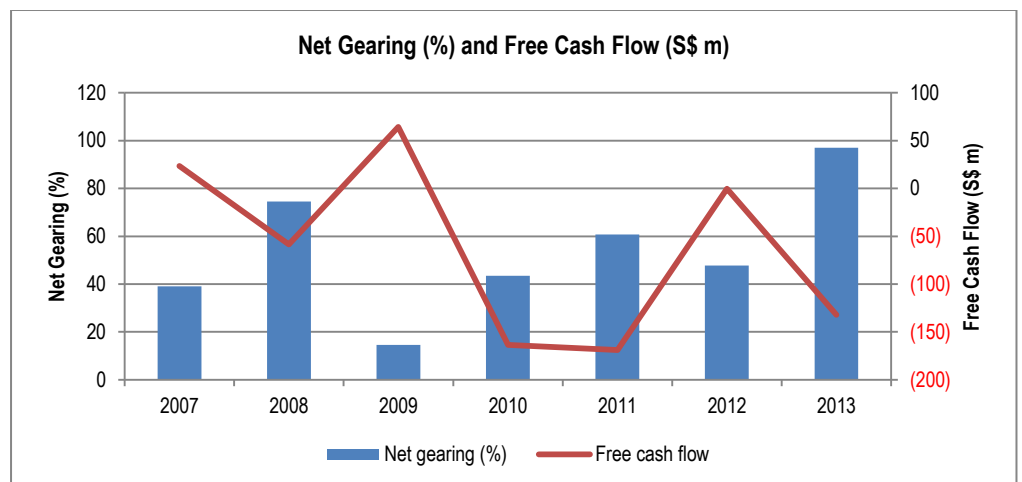
## Financial Highlights

**4Q13 revenues decline 35% yoy to S\$97.2m.** The decline in revenue was mainly from lower contribution from its property development. The property development segment was mainly contribution from sales of Nine Residences and Junction 9, which were launched in 4Q13 (64% and 92% sold, respectively). Construction was comparable yoy while revenue from property investments decreased 48% yoy to S\$0.5m due to cessation of rental from its Queen Street Property in Australia in preparation for the development of Tower Melbourne, its current flagship project in Australia.



Source: Company

**Healthy balance sheet.** It generated S\$83m in positive free cash flow as a result of sales from its development properties and lower working capital requirements. As a result, net gearing improved from 121% as at end 3Q13 to 97% as at end 4Q13. Gearing will typically be high during the development of properties and most of the current increase in borrowings is due to development projects (Nine Residences, Junction 9), investment property (San Centre at 171 Chin Swee Road) and its hotel (Alexandra Central).



Source: Company

## Valuation and Recommendation

**Moving up the value chain and on-going diversification.** The group has been successful in moving up the value chain from construction to property development, as well diversifying from Singapore into Australia. The group also expanded into the hospitality business. It has successfully launched its first property, 33M at 33 Mackenzie Street, Melbourne and is currently developing Melbourne's tallest CBD residential building – the Tower Melbourne. The Tower Melbourne was 99% sold as at the end of 4Q13. The group is expected to launch its new development project in Doncaster, Australia this year.

**Prudence in Singapore property market.** Singapore's latest cooling measure, the Total Debt Servicing Ratio (TDSR), which was introduced in June 2013 has been effective in moderating property prices in Singapore. In response, the group has remained prudent in acquiring additional land banks and has instead shifted focus, at least for the moment, to Australia.

**Hotel business to provide steady recurring revenues.** Its hotel at Alexandra Central is expected to be completed in FY15 and will begin to provide a steady recurring revenue stream to the group from 2H15 onwards. Although we estimate it will provide only around 5-10% of total group revenues in our forecast period, we believe it is a milestone for the group's effort to diversify into the hospitality sector. The group continues to be active in looking for opportunities to expand to more hotels this year.

**Expected record revenues to be recognised this year.** As per IFRS 115, the group will recognise revenues and related costs upon TOP for 3 projects in FY14. They include Alexandra Central, Belvia, and 100 Pasir Panjang and which we estimate would contribute around 65% of the record S\$1.3bn revenues in FY14. It will also fully recognise 40% of profits from Belysa.

**We initiate an Overweight recommendation with S\$1.04 fair value,** based on SOTP of its property development and construction business. We value its property construction business at 6x FY14 PER, in line with its peers in the construction sector. Meanwhile, we apply a 30% discount to our RNAV for its property development, property investments and hotel. Furthermore, it has consistently paid out 4 Singapore cents dividend over the last 4 financial years, which implies an attractive 5.3% dividend yield at current prices.



## SOTP Valuation

RNAV Valuation (S\$ m)	Valuation (S\$ m)
Development surplus (Singapore)	189.2
Development surplus (Australia)	32.5
Investment properties surplus	35.1
Hotel at Alexandra Central Surplus	44.7
NAV as at 31 Dec 2013	498.8
NAV excluding Construction Business	440.8
Our RNAV for its properties and investments	742.3
SOTP Valuation	Valuation (S\$ m)
RNAV (properties and investments)	742.3
Discount (%)	30%
RNAV after discount	519.6
6x PER construction business value (FY14F)	156.4
Total value (RNAV 30% discount + Construction)	676.0
Outstanding number of shares (m)	642.0
SOTP per share (S\$)	1.043
Upside/(downside) (%)	35.4%

Source: NRA Capital estimates

Development surplus is calculated with its current 9 development properties total sales proceeds less the costs (borrowings, construction and development costs) resulting in gross margins of between 10% and 40%, and then less operating expenses and taxes to come up with net profit. Investment properties surplus is calculated by estimating the increase in property values. Hotel Surplus is calculated by taking an average of S\$850,000/room less all development costs.

## Peer Comparison

Name	Code	Price (Local)	MktCap (S\$ m)	Actual PER (x)	Y1 PER (x)	Y2 PER (x)	Total Equity (S\$m)	PBR (x)	ROE (%)	Yield (%)
CHIP ENG SENG	CHIP SP	0.74	475.1	6.6	2.7	4.9	498.8	1.0	14.7	5.3
OXLEY	OHL SP	0.80	2358.6	7.2	7.3	14.3	288.5	4.7	94.3	0.4
WHEELLOCK	WP SP	1.82	2171.8	54.2	16.7	13.4	3002.5	0.7	1.3	3.3
FRAGRANCE	FRAG SP	0.25	1646.4	7.9	na	na	1580.0	1.4	20.0	1.6
HO BEE LAND	HOBEE SP	2.37	1582.1	2.7	21.5	18.5	2347.8	0.7	28.7	2.1
SIM LIAN GROUP	SLG SP	0.86	865.1	4.9	na	na	862.5	1.0	20.9	5.3
ROXY-PACIFIC	ROXY SP	0.57	680.3	7.4	6.6	7.4	330.0	2.1	31.6	3.4
HONG FOK CORP	HFC SP	0.79	621.3	1.7	na	na	1563.4	0.4	25.8	1.9
SINGHAIYI GROUP	SINX SP	0.18	506.8	24.9	na	na	157.6	1.3	5.0	na
HIAP HOE	HIAP SP	0.90	425.6	5.3	na	na	372.9	1.1	23.5	2.2
HEETON HLDGS	HTON SP	0.67	178.6	9.4	na	na	286.5	0.6	19.9	3.6
SING HOLDINGS	SING SP	0.37	148.4	5.1	na	na	231.2	0.7	20.8	2.7
TEE LAND	TEEL SP	0.30	131.8	48.4	14.8	11.3	86.5	1.2	4.1	1.7
IPC CORP	IPC SP	0.15	126.2	6.9	na	na	186.9	0.7	10.1	1.7
<b>Average</b>			<b>851.3</b>	<b>13.8</b>	<b>11.6</b>	<b>11.6</b>	<b>842.5</b>	<b>1.2</b>	<b>22.9</b>	<b>2.7</b>

Source: Company, NRA Capital estimates

# Chip Eng Seng

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue	617.1	502.5	1,261.0	780.3	417.2
Operating expenses	(542.9)	(458.7)	(1,059.3)	(674.0)	(378.5)
EBITDA	74.3	43.7	201.7	106.3	38.7
Depreciation & amortisation	(3.1)	(3.5)	(3.7)	(4.1)	(4.1)
EBIT	71.2	40.3	198.0	102.2	34.6
Net interest & invt income	35.2	15.2	12.0	13.4	15.9
Associates' contribution	2.2	29.9	16.0	8.0	3.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>108.6</b>	<b>85.3</b>	<b>226.0</b>	<b>123.6</b>	<b>53.8</b>
Tax	(27.3)	(12.0)	(45.2)	(24.7)	(10.8)
Minority interests	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>81.3</b>	<b>73.4</b>	<b>180.8</b>	<b>98.9</b>	<b>43.0</b>
Wt. shares (m)	661.5	648.3	648.3	648.3	648.3
Shares at year-end (m)	661.5	648.3	648.3	648.3	648.3
<b>Balance Sheet</b> (S\$ m, as at Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Fixed assets	145.3	161.9	192.1	246.8	248.4
Intangible assets	0.3	0.3	0.3	0.3	0.3
Other long-term assets	61.4	217.3	228.2	244.1	263.7
<b>Total non-current assets</b>	<b>207.0</b>	<b>379.5</b>	<b>420.6</b>	<b>491.2</b>	<b>512.4</b>
Cash and equivalents	242.1	284.2	263.3	238.9	237.1
Stocks	545.8	651.8	504.4	499.4	400.6
Trade debtors	151.6	129.4	252.2	171.7	91.8
Other current assets	9.1	20.0	20.0	20.0	20.0
<b>Total current assets</b>	<b>948.6</b>	<b>1,085.4</b>	<b>1,039.9</b>	<b>929.9</b>	<b>749.4</b>
Trade creditors	108.8	107.6	181.6	124.8	100.1
Short-term borrowings	123.0	281.0	189.2	117.0	62.6
Other current liabilities	120.9	75.5	93.3	118.0	128.8
<b>Total current liabilities</b>	<b>352.6</b>	<b>464.1</b>	<b>464.1</b>	<b>359.9</b>	<b>291.5</b>
Long-term borrowings	338.8	487.5	378.3	390.1	292.1
Other long-term liabilities	3.7	14.5	14.5	14.5	14.5
<b>Total long-term liabilities</b>	<b>342.5</b>	<b>502.0</b>	<b>392.8</b>	<b>404.7</b>	<b>306.6</b>
<b>Shareholders' funds</b>	<b>460.5</b>	<b>498.8</b>	<b>603.6</b>	<b>656.6</b>	<b>663.7</b>
Minority interests	0.0	0.0	0.0	0.0	0.0
NTA/share (S\$)	0.70	0.77	0.93	1.01	1.02
<b>Total Assets</b>	<b>1,155.6</b>	<b>1,465.0</b>	<b>1,460.5</b>	<b>1,421.2</b>	<b>1,261.8</b>
<b>Total Liabilities + S'holders' funds</b>	<b>1,155.6</b>	<b>1,465.0</b>	<b>1,460.5</b>	<b>1,421.2</b>	<b>1,261.8</b>
<b>Cash Flow</b> (S\$ m, FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Pretax profit	108.6	85.3	226.0	123.6	53.8
Depreciation & non-cash adjustments	(14.9)	(71.7)	(55.5)	14.8	45.0
Working capital changes	48.7	(92.0)	97.0	27.3	153.5
Cash tax paid	(5.8)	(35.2)	(27.4)	(45.2)	(69.9)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>136.7</b>	<b>(113.6)</b>	<b>240.1</b>	<b>120.5</b>	<b>182.3</b>
Capex	(136.9)	(18.5)	(33.9)	(58.8)	(5.7)
Net investments & sale of FA	4.1	6.6	0.0	0.0	0.0
Others	64.3	5.8	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(68.4)</b>	<b>(6.0)</b>	<b>(33.9)</b>	<b>(58.8)</b>	<b>(5.7)</b>
Debt raised/(repaid)	52.2	306.8	(201.1)	(60.3)	(152.5)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(26.5)	(25.9)	(25.9)	(25.9)	(25.9)
Cash interest & others	(7.7)	(119.1)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>18.1</b>	<b>161.7</b>	<b>(227.0)</b>	<b>(86.2)</b>	<b>(178.5)</b>
<b>Change in cash</b>	<b>86.3</b>	<b>42.2</b>	<b>(20.9)</b>	<b>(24.4)</b>	<b>(1.8)</b>
<b>Change in net cash/(debt)</b>	<b>34.0</b>	<b>(264.6)</b>	<b>180.2</b>	<b>35.8</b>	<b>150.7</b>
<b>Ending net cash/(debt)</b>	<b>(219.7)</b>	<b>(484.3)</b>	<b>(304.1)</b>	<b>(268.3)</b>	<b>(117.6)</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue growth (%)	71.4	(18.6)	151.0	(38.1)	(46.5)
EBITDA growth (%)	(32.3)	(41.1)	361.1	(47.3)	(63.6)
Pretax margins (%)	17.6	17.0	17.9	15.8	12.9
Net profit margins (%)	13.2	14.6	14.3	12.7	10.3
Interest cover (x)	107.3	43.4	57.9	35.8	22.7
Effective tax rates (%)	25.2	14.0	20.0	20.0	20.0
Net dividend payout (%)	31.9	35.3	14.3	26.2	60.3
Debtors turnover (days)	89.7	94.0	73.0	80.3	80.3
Stock turnover (days)	408.7	575.6	182.5	292.0	438.0
Creditors turnover (days)	81.5	95.0	65.7	73.0	109.5

Source: Company, NRA Capital forecasts

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