

**Overweight**

Current Price	S\$0.75
Fair Value	S\$1.04
Up / (downside)	+39%

**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	0.92x
Net gearing	105%

**Major Shareholders**

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

**Historical Chart**

Source: Bloomberg

**Joel Ng**

(+65) 6236-6886  
joel.ng@nracapital.com  
[www.nracapital.com](http://www.nracapital.com)

**Patience will be rewarded**

- **Earnings in line.** Chip Eng Seng's 1Q14 profit of S\$22.3m was in line with our forecasts. Although currently forming only 16% of our full year forecasts, we expect the bulk of revenues and net profit to be recognised in 2H14.
- **Maintain forecasts and recommendation.** We maintain our estimates and fair value at S\$1.04 given that results were in line, still based on our 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). With a 39% potential upside and an attractive 5.3% dividend yield, maintain **overweight**.
- **The bulk of revenues is in 2H14.** So far, it has mainly recognised 100 Pasir Panjang (around 77% sold as at end 1Q14) in its 1Q14, leaving Belysa, Belvia and Alexandra Central to be recognised in subsequent quarters (the three developments are at least 97% sold as at end 1Q14). The group expects TOP for Belysa in 2Q14, while Belvia and Alexandra in 2H14. As Belysa is a JV, it will recognise 40% of profits directly in its income statement.
- **Land bank expansion and launches.** In addition to its active participation in land tenders to build up its land bank in Singapore, it had completed the purchase of the office building at 420 St Kilda Road, Melbourne in March 2014 and had entered into a conditional sales and purchase agreement to acquire two pieces of leasehold land for a mixed residential, retail and hotel development in Malacca, Malaysia with a total land area of around 4,120sqm. We note that there is a RM2bn (~S\$800m) Hatten City mixed development that will be built nearby by the Hatten Group and given that Malacca was one of two cities listed under the UNESCO World Heritage Site in 2008, we believe this is a positive development to further expand its hospitality business. The group also plans to launch its residential project in Doncaster, Australia in the later part of this year.
- **1Q14 revenue increased 52% yoy to S\$197.8m**, driven by both its construction and property development businesses segments. Construction revenue increased 9.6% to S\$71.7m in 1Q14 from on-going public housing projects. Construction segment order book was S\$452.7m as at end 1Q14, compared to S\$553m at end 1Q13. Meanwhile, its property development revenues increased 95% to S\$125.1m as a result from the recognized revenues under the completed method of 100 Pasir Panjang upon TOP in Mar-14.
- **Still healthy balance sheet.** Chip Eng Seng generated S\$4.8m negative free cash flow in 1Q14 from increased capex for the construction of its hotel, alteration works for San Centre, and acquisition of an office building in Melbourne, Australia. As a result, its net gearing increased from 97% as at end 4Q13 to 105% as at end 1Q14.

**Key Financial Data**

(S\$ 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)	6.0	6.5	2.7	4.9	11.2
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 (%)	5.3	5.4	5.4	5.4	5.4

Source: Company, NRA Capital forecasts

# Chip Eng Seng

## Results comparison

FYE Dec (S\$ m)	1Q14	1Q13	yoy % chg	4Q13	qoq % chg	Prev. 1Q14F	Comments
Revenue	197.8	130.4	52	173.2	14	201.4	In line
Operating costs	(170.5)	(124.3)	37	(144.9)	18	(173.5)	In line
EBITDA	27.3	6.0	352	28.3	(3)	27.9	
EBITDA margin (%)	13.8	4.6		16.3		13.9	
Depn & amort.	(0.9)	(0.9)	5	(0.9)	9	(0.9)	In line
EBIT	26.4	5.2	412	27.4	(4)	27.0	In line
Interest expense	(0.7)	(0.4)	64	(0.5)	34	(1.0)	Below
Interest & invt inc	1.1	2.1	(46)	13.0	(91)	1.8	Below
Associates' contrib	0.3	(0.1)	671	0.6	(51)	0.0	Above
Exceptionals	0.0	0.0	0	0.0	0	0.0	
<b>Pretax profit</b>	<b>27.1</b>	<b>6.8</b>	<b>299</b>	<b>40.6</b>	<b>(33)</b>	<b>27.8</b>	In line
Tax	(5.5)	(2.1)	159	(5.9)	(7)	(5.6)	In line
Tax rate (%)	20.4	31.4		14.6		20.0	
Minority interests	0.0	0.0	0	0.0	0	0.0	
<b>Net profit</b>	<b>21.6</b>	<b>4.7</b>	<b>363</b>	<b>34.6</b>	<b>(38)</b>	<b>22.3</b>	In line
EPS (cts)	3.3	0.7	363	5.3	(38)	3.4	

Source: NRA Capital estimates

Table 1 Current Property Developments

	Location	Description	Total 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 - 2Q
100 Pasir Panjang	No 98 and 100 Pasir Panjang Road, Singapore	Light Industrial Building	66	Freehold	54,201	2.5	2014 - Q1
My Manhattan	25, 27, 29, 31, 33, 45 Simei Street 3, Singapore	Condominium	301	99	162,989	2	2014 - 1Q
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, Singapore	Condominium	128	Freehold	47,878	2.1	2015
Alexandra Central	321 Alexandra Road 12, 14, 16, 18	Shopping Mall - Retail	116	99	93,080	1	2014 - 2H
Nine Residences	Yishun Avenue 9, Singapore 12, 14, 16, 18	Condominium	186	99	176,200	1.0	2015 - 4Q
Junction Nine	Yishun Avenue 9, Singapore	Shopping Mall - Retail	146	99	106,788	1.0	2016 - 1Q
<b>Australia</b>							
Tower Melbourne	150 Queen Street, Melbourne, Australia	Residential Apartment with Amenities	581	Freehold	9,860		2018*

Source: Company

\*Tower Melbourne scheduled completion delayed to 2018 from 2017.

# 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

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.