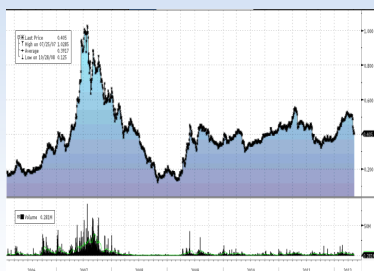


Overweight

Current Price **S\$0.41**
11 May 2012

Fair Value **S\$0.565**

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Historical Chart

Source : Bloomberg

Stock Statistics

Market Cap	S\$273.7m
52-HI	S\$0.53
52-LOW	S\$0.32
Avg Vol	2,194,032
Shares Outstanding	667.5m
Free Float	496.7m

Key Indicators

ROE	33.6%
ROA	13.5%
P/BK*	0.64x
Gearing*	1.09x

*As at 31 Mar 2012

Major Shareholders

Lim Tiam Seng & family	33.92%
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Slow but gradual sales at new launches

- Weak results in FY12 were expected.** 1QFY12 NPATMI of \$4.4m declined 91.7% YoY and 84.9% QoQ to \$4.4m on the back of a 65.8% YoY and 14.4% QoQ fall in revenue to \$49.2m. The sharp drop in NPATMI was largely due to a sharp 99.3% YoY and 86.7% QoQ fall in revenue recognition from property development as My Manhattan was still at an early stage of construction and 100%-owned Oasis@Elias received TOP status in Sep 2011. Further contributing to the weak bottomline was the 21.8% YoY and 8.4% QoQ drop in construction revenue to \$47.8m as on-going project, Yishun N5C2, was at an early stage of construction in 1QFY12 and several construction projects including Queenstown RC25, Sengkang N4C3, Grange Infinite and Punggol West C25 were completed or near completion in FY11. Modest losses of \$0.7m from associates due to marketing expenses incurred at Prive (100% sold, TOP : 2013) and Belysa (100% sold, TOP : 2013) further pressured NPATMI. Gearing edged higher to 1.1x (as at 31 Mar 2012) from 0.6x as at Dec 2011, but still lower than gearing of 1.3x of peers, as additional bank loans were secured to finance the purchase of Alexandra hotel-cum-commercial development site.
- Slow but gradual sales at new launches is encouraging.** Chip Eng Seng (CES) launched Phase 1 (44 units) of Fulcrum at Fort Road and phase 2 (100 units) of My Manhattan on 28 Apr 2012. Despite the weak property market sentiment, the sales response has been encouraging. Phase 1 of Fulcrum achieved a take-up rate of 29% at ASP of \$2000psf (net), which is higher than our expectations of ASP of \$1750psf, while sales at Phase 2 at My Manhattan was 25% at ASP of \$1200psf (net), as expected.
- Forward profits underpinned by pipeline of development and construction projects.** Forward earnings is expected from the property development arm, underpinned by a pipeline of local and overseas projects which are largely sold and expected to receive TOP status over 2012 to 2015, as well as the launch of a condo project at Queens Street in Melbourne towards end-2012. The construction arm will also benefit from HDB's public housing building program and in-house development projects. As at 31 Mar 2012, CES has an order book of \$424m, which dipped 9.8% QoQ however, CES is actively bidding for HDB projects. CES is progressively building up its recurring income (\$2.3m in FY11) through the redevelopment of Pasir Panjang industrial property and the development of Alexandra Road site into a three to four-star hotel with retail component.
- Risk.** CES remained susceptible to the lackluster demand for high-end properties in Singapore. Higher construction costs ensuing from higher levy and wages pressure will also lead to margin pressure in construction contracts.
- Valuation and Recommendations.** Management's refocus to building up an investment property portfolio will mitigate CES from policy risk on the Singapore housing market. Strong development profits from the past five years has also strengthened the balance sheet to cushion lacklustre project sales, expand its investment portfolio and pursue land acquisition opportunities in Singapore and overseas. We revised higher our ASP assumptions to \$1900psf for Fulcrum but also assumed higher construction costs and slower progressive sale for the project. We maintain our valuation at \$1.03 and based on a 45% discount to valuation, as previously, we arrive at a target price of S\$0.565. Downside risk to the share price is further supported by CES' low price-to-book ratio (PBR) of 0.6x, compared to PBR of 0.9x of small-cap property peers. CES also offers a yield of about 7% based on a prudent annual dividend profile of 3 cents per share. CES remains undervalued relative to peers. Maintain **Overweight**.

Key Financial Data

S\$m

YE 30 Dec	FY10A*	FY11A*	FY12F	FY13F
Sales	477.0	360.0	650.3	540.5
Gross Profit	58.6	139.7	78.5	61.3
Net Profit	174.3	123.7	53.3	95.8
EPS (S cents)	26.1	18.5	8.0	14.4
EPS growth (%)	NA	-29.0	-56.9	79.6
PER (x)	1.6	2.2	5.1	2.9
DPS (S cents)	4.0	4.0	3.0	3.0
Div Yield (%)	9.8	9.8	7.3	7.3

* FY10 & FY11 results have been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Table 1 : Completion schedule of projects under development

Completion Schedule of Projects under Development

Project & Location	Expected TOP
33M, MacKensie St, Melbourne	end 2012
Prive, Punggol Field Road	2013
Belysa, Pasir Ris Drive 1	2013
My Manhattan*, Simei St 3	2014
Belvia, Bedok Reservoir Cres.	2014
Fulcrum, Fort Road	2015

* Percentage of completion method is used to recognise revenue and expenses of My Manhattan and Fulcrum

Source : Company, NRA Capital

1QFY12 Results						
Profit & Loss (S\$'000)						
Year end: 31 Dec	1QFY12	1QFY11	YoY % Chg	1QFY12	4QFY11	QoQ % Chg
Revenue	49,238	144,132	-65.8%	49,238	57,497	-14.4%
Cost of Sales	(34,420)	(108,867)	-68.4%	(34,420)	(26,035)	32.2%
Gross Profit	14,818	35,265	-58.0%	14,818	31,462	-52.9%
Operating income	140	282	-50.4%	140	9,350	-98.5%
Operating Expenses	(7,509)	(7,042)	6.6%	(7,509)	(9,053)	-17.1%
Administrative expenses	(2,062)	(3,007)	-31.4%	(2,062)	(4,233)	-51.3%
Selling Expenses	(5,447)	(4,035)	35.0%	(5,447)	(4,820)	13.0%
Operating Profit	7,449	28,505	-73.9%	7,449	31,759	-76.5%
Net interest	5	690	-99.3%	5	359	-98.6%
Share of results of associates	(749)	28,175	nm	(749)	(2,708)	-72.3%
Pre-tax Profit	6,705	57,370	-88.3%	6,705	29,410	-77.2%
Income tax	(2,341)	(5,095)	-54.1%	(2,341)	(585)	300.2%
Minority interest	0	37	nm	0	0	nm
Net Profit	4,364	52,312	-91.7%	4,364	28,825	-84.9%
EPS (Scts)	0.66	7.90	-91.6%	0.66	4.35	-84.8%

Profit & Loss (S\$'000)				
Year end : 31 Dec	2010A*	2011A*	2012F	2013F
Revenue	477,030	359,980	650,302	540,529
Cost of Sales	(418,411)	(220,245)	(571,770)	(479,240)
Gross Profit	58,619	139,735	78,532	61,289
Operating income	3,274	8,466	6,773	5,418
Operating Expenses	(31,523)	(31,594)	(21,126)	(21,032)
Admin Expenses	(17,546)	(18,864)	(16,034)	(16,195)
Selling Expenses	(13,977)	(12,730)	(5,092)	(4,837)
Operating Profit	30,370	116,607	64,179	45,675
Net interest	3,093	1,556	1,656	2,042
Share of results of associates	143,616	23,785	(798)	69,121
Pre-tax Profit	177,079	141,948	65,037	116,838
Income tax	(2,822)	(18,253)	(11,707)	(21,031)
Minority interest	(1)	-	-	-
Net Profit	174,256	123,695	53,330	95,807
EPS - fully diluted (Scts)	26.1	18.5	8.0	14.4
EPS Growth (%)	na	-29.0%	-56.9%	79.6%

* FY10 & FY11 results have been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Balance Sheet (S\$'000)				
Year end : 31 Dec	2010A*	2011A*	2012F	2013F
Non-current assets				
Fixed Assets, Net	7,031	11,702	19,127	26,909
Investment properties	96,513	139,436	286,779	356,540
Investment in Associates	110,046	12,777	13,177	13,577
Other non-current assets	46,136	53,372	53,462	53,556
Total non-current assets	259,726	217,287	372,545	450,583
Current assets				
Cash & Fixed Deposit	133,570	155,774	85,586	137,607
Trade & Other Receivables	84,286	136,020	140,984	204,826
Development properties	318,753	458,444	458,230	476,363
Other current assets	46,595	23,013	23,149	23,292
Total current assets	583,204	773,251	707,949	842,088
Total assets	842,930	990,538	1,080,494	1,292,671
Current Liabilities				
Trade Creditors	99,343	95,556	140,984	170,688
Bank borrowings, secured	115,600	62,519	56,267	50,640
Gross amount due to customers for contract WIP	105,980	5,731	6,018	6,318
Other current liabilities	26,635	54,107	63,885	47,550
Total current liabilities	347,558	217,913	267,154	275,197
Non-current liability				
Bank borrowings, unsecured	169,265	347,000	354,410	482,762
Other non-current liability	5,846	8,741	8,741	8,741
Total non-current liability	175,111	355,741	363,151	491,503
Minority Interest	8	-	-	-
Shareholders funds	320,253	416,884	450,189	525,971
Total shareholders funds	320,261	416,884	450,189	525,971

* FY10 & FY11 results have been restated to account for changes in accounting policy with the implementation of INT FRS 115.

Cash flow Statement (S\$'000)				
Year end : 31 Dec	2010A*	2011A*	2012F	2013F
Cash flow from Operating Act.				
Pretax profit	177,079	141,948	65,037	116,838
Adjustments	(160,721)	(26,402)	(147,626)	(140,206)
Operating profit bef. WC changes	16,358	115,546	(82,589)	(23,368)
Changes in working capital				
	(188,514)	(280,332)	84,378	(18,849)
Tax Paid & Exchange Difference	2,972	(753)	(11,707)	(21,031)
Net Cash gen. fr. Operations	(169,184)	(165,539)	(9,918)	(63,248)
Cash flow from Investing Act.				
Capex	(5,693)	(6,506)	(8,000)	(8,500)
(Repayment from)/advance to associates, net	10,936	4,749	20,000	30,000
Dividend income fr assocs & invtm securities	122,760	124,624	20,098	12,450
Others	13,602	5,020	1,371	1,745
Net Cash gen. fr. investing	141,605	127,887	33,469	35,695
Cash flow from Financing Act.				
Loans, Net	171,317	124,654	1,158	122,725
Additions to investment properties	(64,808)	(37,462)	(75,000)	(22,800)
Dividend Paid	(20,007)	(26,466)	(20,025)	(20,247)
Others	(1,457)	(870)	128	(103)
Net Cash gen. fr. financing act.	85,045	59,856	(93,739)	79,575
Net change in cash/cash equivalent	57,466	22,204	(70,188)	52,021
Cash balance at the beginning of the year	76,104	133,570	155,774	85,586
Cash balance at the end of the year (net of OD)	133,570	155,774	85,586	137,607

* FY10 & FY11 results have been restated to account for changes in accounting policy with the implementation of INT FRS 115.

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