

Chip Eng Seng Corporation Ltd

Overweight

Current Price	S\$0.405
Fair Value	S\$0.620
Up / (downside)	+53.1%

Stock Statistics

Market cap	S\$270.3m
52-low	S\$0.32
52-high	S\$0.53
Avg daily vol	2,022,980
No of share	667.5m
Free float	74.4%

Key Indicators

ROE 12F	12.4%
ROA 12F	4.7%
P/BK*	0.67x
Gearing*	1.30x

*As at 30 Jun 2012

Major Shareholders

Lim Tiam Seng & family	33.92%
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Historical Chart



Source: Bloomberg

Expect a stronger 2HFY12

- Expect a stronger 2HFY12; maintain our FY12 forecast.** 2QFY12 PATMI of \$7.4m declined 58.0% YoY on the back of a 4.0% YoY dip in revenue to \$82.6m largely due to a sharp 42.9% YoY fall in revenue recognition from property development following modest contributions from My Manhattan, which was still at early stages of construction, marginally contributions from the newly launched Fulcrum and as 100%-owned Oasis@Elias received TOP status in Sep 2011. Lower margins for a new construction project, namely Yishun N5C2, further led to declining PATMI on a YoY basis. However, despite the modest revenue recognition from My Manhattan and Fulcrum, these projects lifted 2QFY12 PATMI by 70.4% QoQ. Gearing edged higher to 1.3x (as at 30 Jun 2012) from 1.1x (as at 31 Mar 2012) as additional bank loans were secured to finance the purchase of Alexandra hotel-cum-retail development site. Although 1HFY12 PATMI of \$11.8m amounted to only 22% of our FY12 PATMI estimate of \$53.3m, we maintain our FY12 earnings forecast as we expect 2HFY12 PATMI to be lifted by the recognition of profits from 33M which is targeted for completion before end-2012.
- Plans to step up marketing effort at Fulcrum later.** Sales of existing launches have been moving steadily with My Manhattan showing improving take-up rate of 74% to-date (about 51% as of mid-May 2012) at ASP of about \$1200psf and while Belvia (DBSS project) has a take-up rate of 79% (about 67% in May 2012). Sales of Phase 1 of Fulcrum has been slow, achieving a take-up rate of 32% at ASP of \$2000psf (net), but management is not unduly concerned given the choice location of this freehold project and will step-up marketing efforts at opportunistic moments.
- Unveil plans at Alexandra Road site.** Chip Eng Seng (CES) has appointed Park Hotel Group to manage its 450-room four-star hotel-cum-retail project at the junction of Alexandra Road and Jalan Bukit Merah. The project is scheduled to complete in 1HFY15 and is part of CES' new strategy to build up its investment portfolio for recurring income although part of the retail space is for sale. Assuming a 50:50 sale vs investment ratio at an ASP of \$3800psf, the sale of retail space is conservatively estimated to enhance RNAV per share by 7 cents.
- A strong pipeline of local and overseas development projects which are largely sold** and are expected to receive TOP status over 2012 to 2015 (refer to Table 1), as well as the expected launch of a condo project at Queens Street in Melbourne towards end-2012 will continue to underpin earnings and enhance CES' balance sheet. The construction arm will also benefit from HDB's buoyant public housing development program given its proven track record in public housing construction although higher levy and wages are expected to continue to pressure margins of construction contracts. Going forward, CES will pursue strategic niche sites for development and actively bid for HDB construction projects whilst gradually build up its recurring income through the redevelopment of Pasir Panjang industrial property and the development of mixed hotel-cum-retail development at Alexandra Road/ Jalan Bukit Merah.
- Valuation and Recommendations.** Through careful planning and execution, CES' refocus to build up an investment property portfolio is gradually coming into place and will come to fruition over the next three years. With strengthening balance sheet as more development projects complete, CES will be able to seek strategic land acquisition opportunities in Singapore as well as overseas. In light of a buoyant domestic tourism scene and unveiling of hotel plans, we raise our valuation of the hotel by about 8% and assume a development component to the retail space at Alexandra Road. We raise our valuation to \$1.13 (previously \$1.03) whilst maintaining a 45% discount to valuation to arrive at a target price of S\$0.62 (previously \$0.565). Downside risk to the share price is further supported by CES' low price-to-book ratio (PBR) of 0.67x, compared to PBR of 0.9x of small-cap property peers. In view of the balance sheet strength, we believe CES will be able to maintain a prudent annual dividend profile of 3 cents per share, offering a yield of about 7%, notwithstanding its development commitment at Alexandra Road. Maintain **Overweight**.

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Key Financial Data					
(S\$ m, FYE 31 Dec)	2010*	2011*	2012F	2013F	2014F
Sales	477.0	360.0	686.9	616.9	934.8
Gross Profit	58.6	139.7	88.1	87.0	175.6
Net Profit	174.3	123.7	53.2	109.0	124.9
EPS (cents)	26.11	18.53	7.96	16.33	18.71
EPS growth (%)	NA	-29.02	-57.02	105.04	14.60
PER (x)	1.55	2.19	5.09	2.48	2.16
NAV/share (cents)	48.0	62.5	66.3	79.4	87.3
DPS (cents)	4.0	4.0	3.0	3.0	4.0
Dividend Yield (%)	9.9	9.9	7.4	7.4	9.9

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

Source: Company, NRA Capital estimates

Results comparison

2QFY12 Results						
Profit & Loss (S\$'000)			YoY		QoQ	
Year end: 31 Dec	2QFY12	2QFY11	% Chg	2QFY12	1QFY12	% Chg
Revenue	82,617	86,047	-4.0%	82,617	49,238	67.8%
Cost of Sales	(66,798)	(57,066)	17.1%	(66,798)	(34,420)	94.1%
Gross Profit	15,819	28,981	-45.4%	15,819	14,818	6.8%
Operating income	1,378	274	402.9%	1,378	140	884.3%
Operating Expenses	(9,005)	(6,086)	48.0%	(9,005)	(9,680)	-7.0%
Administrative expenses	(3,762)	(2,481)	51.6%	(3,762)	(4,233)	-11.1%
Selling Expenses	(5,243)	(3,605)	45.4%	(5,243)	(5,447)	-3.7%
Operating Profit	9,172	23,169	-60.4%	9,172	7,449	23.1%
Net interest	(191)	153	nm	(191)	5	nm
Share of results of associates	707	(927)	nm	707	(749)	nm
Pre-tax Profit	9,688	22,395	-56.7%	9,688	6,705	44.5%
Income tax	(2,253)	(4,652)	-51.6%	(2,253)	(2,341)	-3.8%
Minority interest	0	(37)	nm	0	0	nm
Net Profit	7,435	17,706	-58.0%	7,435	4,364	70.4%
EPS (Scts)	1.12	2.67	-58.1%	1.12	0.66	69.7%

Source: Company, NRA Capital

Chip Eng Seng Corporation Ltd

Table 1 : Completion Schedule of Residential 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 estimates

Profit & Loss (\$S'000)					
Year end : 31 Dec	2010A*	2011A*	2012F	2013F	2014F
Revenue	477,030	359,980	686,865	616,880	934,781
Cost of Sales	(418,411)	(220,245)	(598,730)	(529,898)	(759,223)
Gross Profit	58,619	139,735	88,135	86,981	175,558
Operating income	3,274	8,466	6,773	5,418	4,335
Operating Expenses	(31,523)	(31,594)	(30,934)	(30,633)	(30,359)
Admin Expenses	(17,546)	(18,864)	(20,750)	(20,958)	(21,167)
Selling Expenses	(13,977)	(12,730)	(10,184)	(9,675)	(9,191)
Operating Profit	30,370	116,607	63,973	61,767	149,534
Net interest	3,093	1,556	1,656	2,042	2,800
Share of results of associates	143,616	23,785	(798)	69,121	-
Pre-tax Profit	177,079	141,948	64,832	132,929	152,334
Income tax	(2,822)	(18,253)	(11,670)	(23,927)	(27,420)
Minority interest	(1)	-	-	-	-
Net Profit	174,256	123,695	53,162	109,002	124,914
EPS - fully diluted (Scts)	26.1	18.5	8.0	16.3	18.7
EPS Growth (%)	na	-29.0%	-57.0%	105.0%	14.6%

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

Source: Company, NRA Capital estimates

Chip Eng Seng Corporation Ltd

Balance Sheet (S\$'000)					
Year end : 31 Dec	2010A*	2011A*	2012F	2013F	2014F
Non-current assets					
Fixed Assets, Net	7,031	11,702	18,257	24,936	31,666
Investment properties	96,513	139,436	342,178	314,134	367,822
Investment in Associates	110,046	12,777	6,168	6,168	6,168
Other non-current assets	46,136	53,372	56,037	56,673	56,772
Total non-current assets	259,726	217,287	422,640	401,911	462,428
Current assets					
Cash & Fixed Deposit	133,570	155,774	135,034	204,667	337,883
Trade & Other Receivables	84,286	136,020	164,036	203,249	187,206
Development properties	318,753	458,444	542,529	474,584	185,053
Other current assets	46,595	23,013	23,149	23,292	23,442
Total current assets	583,204	773,251	864,748	905,792	733,583
Total assets	842,930	990,538	1,287,388	1,307,703	1,196,011
Current Liabilities					
Trade Creditors	99,343	95,556	98,421	94,365	104,003
Bank borrowings, secured	115,600	62,519	150,046	150,046	75,023
Gross amt due to customers for contract WIP	105,980	5,731	6,018	6,318	6,634
Other current liabilities	26,635	54,107	57,266	41,503	44,878
Total current liabilities	347,558	217,913	311,750	292,233	230,539
Non-current liability					
Bank borrowings, unsecured	169,265	347,000	525,080	477,312	374,215
Other non-current liability	5,846	8,232	8,232	8,232	8,232
Total non-current liability	175,111	355,232	533,312	485,544	382,447
Minority Interest	8	-	-	-	-
Shareholders funds	320,253	417,393	442,325	529,926	583,026
Total shareholders funds	320,261	417,393	442,325	529,926	583,026

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

Source: Company, NRA Capital estimates

Chip Eng Seng Corporation Ltd

Cash flow Statement (S\$'000)					
Year end : 31 Dec	2010A*	2011A*	2012F	2013F	2014F
Cash flow from Operating Act.					
Pretax profit	177,079	141,948	64,832	132,929	152,334
Adjustments	(160,721)	(26,402)	(7,206)	(43,308)	(55,218)
Operating profit bef. WC changes	16,358	115,546	57,625	89,621	97,116
Changes in working capital					
Tax Paid & Exchange Difference	2,972	(753)	(11,670)	(23,927)	(27,420)
Net Cash gen. fr. Operations	(169,184)	(165,539)	(68,913)	151,458	334,197
Cash flow from Investing Act.					
Capex	(5,693)	(6,506)	(8,000)	(8,500)	(9,000)
(Repayment from)/advance to assoc, net	10,936	4,749	2,332	3,000	2,300
Divid income fr assoc & invtm securities	122,760	124,624	12,066	12,450	58,407
Others	13,602	5,020	1,771	2,145	2,881
Net Cash gen. fr. investing	141,605	127,887	8,169	9,095	54,588
Cash flow from Financing Act.					
Loans, Net	171,317	124,654	265,607	(47,768)	(178,120)
Additions to investment properties	(64,808)	(37,462)	(199,030)	(22,800)	(57,344)
Dividend Paid	(20,007)	(26,466)	(26,701)	(20,247)	(20,025)
Others	(1,457)	(870)	128	(103)	(81)
Net Cash gen. fr. financing act.	85,045	59,856	40,004	(90,919)	(255,570)
Net change in cash/cash equivalent	57,466	22,204	(20,740)	69,634	133,215
Cash balance at the beginning of the year	76,104	133,570	155,774	135,034	204,667
Cash balance at the end of the year (net of OD)	133,570	155,774	135,034	204,667	337,883

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

Source: Company, NRA Capital estimates

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