

# Chip Eng Seng Corporation Ltd

## Gradual Pick-up in Development Sales

### SINGAPORE | REAL ESTATE | RESULTS

- Most property development projects in Singapore and Australia as at 2Q16 are either fully sold or close to being fully sold
  - Singapore - High Park Residences: 98.4%, Alexandra Central: 97.4%, Fulcrum: 38.2%
  - Australia - Tower Melbourne: 100%, Williamson Estate: 100%, Willow Apartments: 47.2%
- No new construction projects was clinched year-to-date. Order book is currently standing at S\$437.4 million, and we expect it to last for another six quarters

Results At A Glance				
(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Revenue	234	197	18.9%	Higher contribution from property development through the divestment of 170 Victoria Street land site in Australia
Gross Profit	53	45	18.0%	Gross margin maintained at 22.7%
Profit before Tax	28	24	16.0%	
PATMI	14	21	-33.2%	Higher taxes from land divestment in Australia

Source: Company, Phillip Securities Research (Singapore)

#### Fulcrum development project is 38.2% sold as at 1H16; sales not expected to pick up in our view but no pressure to clear for now; development margins still intact

The Group is registering gradual sales at its high end development project, Fulcrum, where the project is 38.2% sold as at 2 August 2016 since the property was re-launched in 1Q16 (11% before re-launch). We note that close to 80% of sales in Fulcrum were attributed to smaller units measuring below 100 square metres (sqm). We view that the 60% total debt servicing ratio may have limited buyers' purchasing ability and that could have led to the increasing popularity of smaller units. As there are 39 units (30.5% out of the total) remaining in the development that are larger than 100 sqm, we expect sales momentum to remain slow since larger units are harder to move. On the bright side, as Fulcrum has already received its temporary occupation permit status in April 2016, the completed building may provide a slight boost in sales momentum in the coming months. All in all, the Group still has c.15 months before they are liable to pay qualifying certificate charges, and has not resorted to significantly cutting prices at this point of time, considering that average selling prices (ASP) were comparable before (S\$2002) and after re-launch (S\$1958). As such, we are still optimistic that the Group is able to meet our development margin forecast of 25%.

#### Launch of two new property development projects by July 2017 is expected to add S\$1.2 billion in GDV as existing inventory begins to thin

CES intends to launch two new property development projects in Singapore and Australia by July 2017 as existing inventory is thinning out. Most of its development projects are close to fully sold (Alexandra Central: 97.4%, High Park Residences: 98.4%) except for Fulcrum (38.2%) and Willow Apartments (47.2%). Considering the smaller gross development value (GDV) of Willow Apartments (A\$32 million), it will not be a significant contributor in revenue as compared to other projects with higher GDV such as High Park Residences (S\$600 million based on CES' 60% share) and Fulcrum (S\$200 million). Hence, the only major contributing project remaining is Fulcrum where it has 61.8% of units left for sale translating to S\$123.6 million in GDV by our calculations. This GDV attributable from Fulcrum made up only 80% of revenue from the Group's property development (S\$154.5 million) in 2Q16. We estimate the two new development projects to be launched in July 2017 to add a GDV of c.S\$1.2 billion.

#### Investment Action

We continue to favour CES for its solid execution in the property development frontier where the Group is sitting to recognise revenue from a few development projects that have been either completely or mostly sold. We will be closely monitoring the two new launches slated to be launched in July 2017, considering their significant amount of GDV (S\$1.2 billion) which is more than six times the amount from the remaining unsold units on the Group's portfolio. We maintain an "Accumulate" rating on CES and an unchanged TP of **S\$0.72** based on our FY16 RNAV estimates.

19 August 2016

### ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 0.630
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.720
TOTAL RETURN	17.8%

#### COMPANY DATA

O/S SHARES (MN) :	621
MARKET CAP (USD mn / SGD mn) :	292 / 391
52 - WK HI/LO (SGD) :	0.74 / 0.57
3M Average Daily T/O (mn) :	0.27

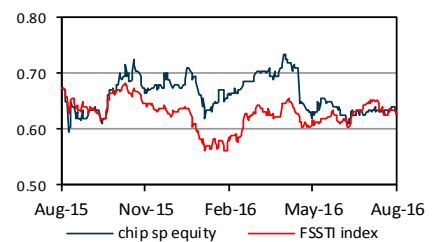
#### MAJOR SHAREHOLDERS (%)

LIM TIAM SENG	12.5%
LIM CHUAN TIANG	7.1%
CHIA LEE MENG	4.1%
KENYON PTE LTD	4.0%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.8)	(0.8)	(3.2)
STIRETURN	(13)	3.8	(3.6)

#### PRICE VS. STI



Source: Bloomberg, P SR

#### KEY FINANCIALS

Y/E Mar	FY 15	FY 16 E	FY 17 E
Gross Rev. (SGD mn)	676.5	542.6	552.0
Gross Profit (SGD mn)	161.5	97.7	99.4
Net Income (SGD mn)	57.2	26.5	25.6
P/B (x)	0.59	0.55	0.56
DPS (Cents)	6.00	4.00	4.00
Dividend Yield, %	5.6	5.6	5.6

Source: Company Data, P SR est.

Analyst (+65 6212 1850)  
Peter Ng  
peterngmc@phillip.com.sg

## Financials

### Income Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16E	FY17E
<b>Revenue</b>	<b>502</b>	<b>1,106</b>	<b>676</b>	<b>543</b>	<b>552</b>
Cost of Sales	-413	-773	-515	-445	-453
<b>Other Items of Income</b>					
Int & Div Income	2	40	5	10	9
Other Income	15	40	5	10	9
<b>Other Items of Expense</b>					
Marketing & Distribution	-21	-6	-28	-8	-8
Administrative Expenses	-28	-57	-57	-57	-58
Finance Costs	-2	-4	-16	-12	-13
<b>Share of Results of Associates</b>	<b>30</b>	<b>17</b>	<b>1</b>	<b>0.4</b>	<b>0.2</b>
Profit Before Tax	85	324	68	33	32
<b>Income Tax Expense</b>	<b>-12</b>	<b>-43</b>	<b>-10</b>	<b>-7</b>	<b>-6</b>
Net Income	73	281	63	21	20

### Cash Flow

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16E	FY17E
Profit Before Tax	85	324	68	33	32
Depreciation & Amortization	3	4	6	6	6
Other Non-cash items	-75	-35	-10	30	30
<b>OCF Before Changes in WC</b>	<b>14</b>	<b>293</b>	<b>64</b>	<b>69</b>	<b>68</b>
Trade & Other Receivables	23	-128	-27	48	-4
Trade & Other Payables	-7	-193	16	-5	2
Inventories	-107	-38	288	97	177
Net interest expense	-0.4	0.5	-13.9	-9.9	-10.4
Income Taxes Paid	-2	-3	-16	-12	-13
Other Items Combined	-47	-297	-74	-106	-110
<b>Cashflow from Operations</b>	<b>-114</b>	<b>-74</b>	<b>300</b>	<b>150</b>	<b>177</b>
PPE & Investment Properties	-18	-56	-21	2	-11
Other Items Combined	12	-2	3	0	0
<b>Cashflow from Investing</b>	<b>-6</b>	<b>-59</b>	<b>-18</b>	<b>2</b>	<b>-11</b>
Loans & Borrowings	307	172	-82	-50	64
Dividends Paid	-26	-26	-37	-25	-25
Other Items Combined	-119	-13	-5	0	0
<b>Cashflow from Financing</b>	<b>162</b>	<b>133</b>	<b>-124</b>	<b>-75</b>	<b>39</b>
Increase in Cash & Equivalents	42	1	157	77	205
Cash & Equivalents (Beginning)	242	284	285	442	520
<b>Cash &amp; Equivalents (Ending)</b>	<b>284</b>	<b>285</b>	<b>442</b>	<b>520</b>	<b>725</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

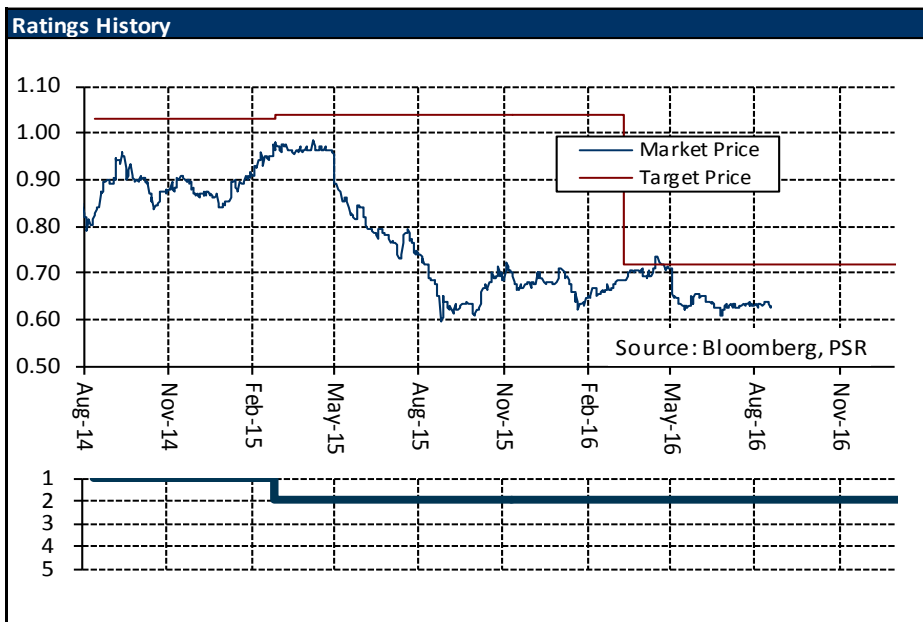
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16E	FY17E
Property, Plant & Equipment	162	214	225	217	222
Investment Properties	186	294	287	279	284
Other Non-current Assets	31	22	23	16	14
<b>Non-Current Assets</b>	<b>380</b>	<b>529</b>	<b>536</b>	<b>512</b>	<b>520</b>
Development Properties	651	924	625	529	352
Completed ppty held-for-sale	0	40	39	39	39
Trade & Other Receivables	129	216	249	201	204
Cash & Short-Term Deposits	284	285	442	520	725
Other Current Assets	20	14	15	15	15
<b>Current Assets</b>	<b>1,085</b>	<b>1,480</b>	<b>1,371</b>	<b>1,303</b>	<b>1,335</b>
<b>Total Assets</b>	<b>1,465</b>	<b>2,008</b>	<b>1,907</b>	<b>1,815</b>	<b>1,855</b>
Loans & Borrowings	281	2	120	103	99
Trade & Other Payables	108	111	117	111	113
Other Liabilities	76	131	80	86	93
<b>Current Liabilities</b>	<b>464</b>	<b>244</b>	<b>317</b>	<b>301</b>	<b>305</b>
Loans & Borrowings	488	938	738	705	773
Deferred Tax Liabilities	15	8	16	16	16
<b>Non-Current Liabilities</b>	<b>502</b>	<b>946</b>	<b>754</b>	<b>721</b>	<b>789</b>
<b>Total Liabilities</b>	<b>966</b>	<b>1,272</b>	<b>1,164</b>	<b>1,069</b>	<b>1,118</b>
Non-Controlling Interests	0	0	-5	0	6
<b>Shareholder Equity</b>	<b>499</b>	<b>736</b>	<b>743</b>	<b>747</b>	<b>738</b>

### Ratios

Y/E Dec	FY14	FY15	FY16E	FY17E
<b>Valuations, Growth &amp; Margins</b>				
<b>Valuations</b>				
P/B	0.9	0.6	0.6	0.6
Dividend Yield	4.7	5.7	5.7	5.7
<b>Growth</b>				
Revenue	120%	-39%	-20%	2%
Net Income	283%	-78%	-67%	-5%
Shareholder Equity	48%	1%	1%	-1%
<b>Margins</b>				
Gross Profit Margin	18%	30%	24%	18%
Net Profit Margin	9%	24%	9%	4%



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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**Contact Information (Singapore Research Team)**
**Research Operations Officer**Mohamed Amiruddin - [amiruddin@phillip.com.sg](mailto:amiruddin@phillip.com.sg)**Consumer | Healthcare**Soh Lin Sin - [sohls@phillip.com.sg](mailto:sohls@phillip.com.sg)**Transport | REITs (Industrial)**Richard Leow, CFTe, FRM -  
[richardleowwt@phillip.com.sg](mailto:richardleowwt@phillip.com.sg)**Banking and Finance**Jeremy Teong - [jeremyteongfh@phillip.com.sg](mailto:jeremyteongfh@phillip.com.sg)**Property | Infrastructure**Peter Ng - [peterngmc@phillip.com.sg](mailto:peterngmc@phillip.com.sg)**REITs (Commercial, Retail, Healthcare) | Property**Dehong Tan - [tandh@phillip.com.sg](mailto:tandh@phillip.com.sg)**US Equity**Ho Kang Wei - [hokw@phillip.com.sg](mailto:hokw@phillip.com.sg)**Macro**Pei Sai Teng - [peist@phillip.com.sg](mailto:peist@phillip.com.sg)**Technical Analysis**Jeremy Ng - [jeremyngch@phillip.com.sg](mailto:jeremyngch@phillip.com.sg)**Oil & Gas | Energy**Chen Guangzhi - [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)


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**Contact Information (Regional Member Companies)**
**SINGAPORE****Phillip Securities Pte Ltd**Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)**JAPAN****Phillip Securities Japan, Ltd.**4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangrak,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)**UNITED STATES****Phillip Futures Inc**141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)**INDIA****PhillipCapital (India) Private Limited**No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)**CAMBODIA****Phillip Bank Plc**Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)**MALAYSIA****Phillip Capital Management Sdn Bhd**B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)**INDONESIA****PT Phillip Securities Indonesia**ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)**FRANCE****King & Shaxson Capital Limited**3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)**AUSTRALIA****Phillip Capital Limited**Level 12, 15 William Street,  
Melbourne, Victoria 3000, Australia  
Tel +61-03 9629 8288  
Fax +61-03 9629 8882  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)**TURKEY****PhillipCapital Menkul Degerler**Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)**HONG KONG****Phillip Securities (HK) Ltd**11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)**UNITED KINGDOM****King & Shaxson Capital Limited**6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)**SRI LANKA****Asha Phillip Securities Limited**2<sup>nd</sup> Floor, Lakshmans Building,  
No. 321, Galle Road,  
Colombo 03, Sri Lanka  
Tel: (94) 11 2429 100  
Fax: (94) 11 2429 199  
Website: [www.ashaphillip.net](http://www.ashaphillip.net)**DUBAI****Phillip Futures DMCC**Member of the Dubai Gold and  
Commodities Exchange (DGEX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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