

Chip Eng Seng Corporation Ltd

Development sales expected to pick up

SINGAPORE | REAL ESTATE | RESULTS

- Chip Eng Seng Corporation's (CES) 9M16 Revenue/PATMI met 83.4%/94.5% of our estimates and we have adjusted our forecast to reflect the better than expected performance
- Development sales in Fulcrum continues to be slow despite some price cuts
- Sales in Willow Apartments expected to accelerate after floor plan adjustment is completed

Results at a glance

(SGD mn)	3Q16	3Q15	y-y (%)	Comments
Revenue	67.9	78.6	(14)	Lower contribution from property development as previous development projects were handed over in Dec-15
Gross profit	27.0	40.4	(33)	Lower margins from property development segment
EBIT	18.3	15.2	20	Mainly due to lower marketing expenses due to absence of new property launch
PATMI	5.7	13.6	(58)	Higher finance costs and losses in minority interest

Source: Company, Phillip Securities Research (Singapore)

Fulcrum is 41.4% sold; slowness in sales expected amid competition but expect further price cuts

Sales volume in CES' 128-unit freehold development project, Fulcrum, moved eight units (6.3% of total units) in 3Q16 at an average selling price (ASP) of S\$1907 per square foot (PSF), down 2.4 percent compared to 2Q16. Our ASP estimate for Fulcrum remains unadjusted at \$1,600 PSF and view that this is a realistic and conservative estimate. However, we have adjusted our estimated breakeven costs upwards to S\$1,442 PSF to factor into the additional interest costs. Our estimated ASP of S\$1,600 will result in a potential development margin of 11%, translating to a 1.3 cents addition to our RNAV estimates. We are anticipating further price cuts at Fulcrum to accelerate sales as competition intensifies with more development projects being due for qualifying certificate (QC) fees in 2017. CES is not pressured to substantially cut prices for now considering that QC extension fees is only due in early 2018, which means the Group still have at >17 months to complete the sale of the remaining units in the development in order avoid QC fees.

Revision on Willow Apartments' floor plans to accommodate buyer's preference for larger units; Tower Melbourne litigation issue ongoing with appeal filed against development

Management mentioned that they are currently revising the floor plans of the remaining unsold units in Willow Apartments (<50%) to accommodate homebuyers' preference for larger sized units. As purchase price will increase following the introduction of larger floor plans, Management has reduced the initial down payment requirements to 5% of the purchase price. We are of the view that sales momentum is likely to pick up following the revision of floor plans. The handover of units is on track and slated to happen in 2H17. The litigation issue at Tower Melbourne involving the owner of an adjoining property is still ongoing, where the owner has filed an appeal against a new demolition plan of the current building which CES has already obtained a favourable determination. The Group is currently awaiting a hearing date for the appeal to be confirmed. While we acknowledge there is still adequate time for the development to be completed and handed over by the stipulated time before the exercise of the "sunset clause", we will continue to exclude development profits (c.S\$76.3 million or RNAV: c.S\$0.12) from Tower Melbourne until there are more certainties.

Investment Action

We acknowledge that there are near term headwinds for the Group's Fulcrum development project, however, we believe that the Group will be able to move the remaining units at the healthy development margin. We have not factored in the potential development profits (S\$0.12) from Melbourne Tower to our RNAV estimates due to the ongoing litigation issue until more certainties are in sight. We maintain an "Accumulate" rating on CES and an unchanged TP of S\$0.72 based on our FY16 RNAV estimates.

11 November 2016

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 0.625
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)	275 / 388
52 - WK HI/LO (SGD)	0.74 / 0.61
3M Average Daily T/O (mn)	0.19

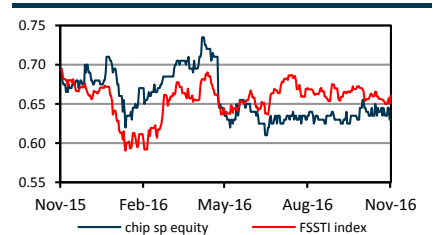
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.8)	(0.8)	(4.5)
STI RETURN	(1.2)	(0.7)	(1.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY15	FY16E	FY17E
Gross Rev. (SGD mn)	677	645	650
Gross Profit (SGD mn)	162	116	117
Net Income (SGD mn)	57	23	22
P/B (x)	0.59	0.55	0.56
DPS (Cents)	6.0	4.0	4.0
Dividend Yield, %	5.6	6.4	6.4

Source: Company Data, PSR est.

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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 is on track to launch two new property development projects in Singapore and Australia in 1H17 and 2H17 respectively, as existing inventory of unsold development units is thinning out. Most of its development projects are close to fully sold (High Park Residences: 98.8%) except for Fulcrum (41%) and Willow Apartments (c.50%). Considering the smaller gross development value (GDV) of Willow Apartments (A\$32 million), it will not be a significant contributor to 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 59% of units left for sale translating to S\$118 million in GDV by our estimates. The GDV attributable from Fulcrum alone made up close to twice of the revenue from the Group's property development (S\$67.9 million) in 3Q16. We estimate the two new development projects to be launched in FY17 to add a GDV of c.S\$1.2 billion.

Order book boosted by two construction segment contract wins

CES bagged two contracts in August 2016 worth a total of S\$267.8 million involving the supply of precast components and the carrying out of construction services for a HDB project in the Bidadari area. We have assumed a blended gross margin of 5% for the two contracts (compared to 7% gross margin for the existing projects) and are of the view that the assumption is realistic considering the current competitive climate in the civil engineering sector. The gross margin projection is the same for the Civil Engineering projects that are undertaken by Hock Lian Seng Holdings which is under our coverage. The two contracts have boosted the Group's order book by 43.7% to S\$628.4 million.

Valuations

RNAV Valuation (S\$ m)	Valuation (S\$ m)
NAV as at FY17E	750
Development surplus (Singapore)	123
Development surplus (Australia)	18
RNAV	890
Shares outstanding (m)	621
RNAV per share (S\$)	1.43
Discount (%)	50%
Target Price(S\$)	0.72
Current price (S\$)	0.625
Upside/(downside), (%)	14.7%

Financials

Income Statement

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16E	FY17E
Revenue	502	1,106	676	645	650
Cost of Sales	-413	-773	-515	-529	-533
Other Items of Income					
Int & Div Income	2	40	5	10	9
Other Income	15	40	5	10	9
Other Items of Expense					
Marketing & Distribution	-21	-6	-28	-10	-10
Administrative Expenses	-28	-57	-57	-68	-68
Finance Costs	-2	-4	-16	-14	-15
Share of Results of Associates	30	17	1	0.4	0.2
Profit Before Tax	85	324	68	37	36
Income Tax Expense	-12	-43	-10	-7	-7
Net Income	73	281	63	23	22

Cash Flow

Y/E Dec, SGD mn	FY13	FY14	FY15	FY16E	FY17E
Profit Before Tax	85	324	68	37	36
Depreciation & Amortization	3	4	6	6	6
Other Non-cash items	-75	-35	-10	32	33
OCF Before Changes in WC	14	293	64	75	75
Trade & Other Receivables	23	-128	-27	11	-2
Trade & Other Payables	-7	-193	16	16	1
Inventories	-107	-38	288	198	268
Net interest expense	-0.4	0.5	-13.9	-12.1	-12.7
Income Taxes Paid	-2	-3	-16	-14	-15
Other Items Combined	-47	-297	-74	-109	-116
Cashflow from Operations	-114	-74	300	238	273
PPE & Investment Properties	-18	-56	-21	2	-11
Other Items Combined	12	-2	3	0	0
Cashflow from Investing	-6	-59	-18	2	-11
Loans & Borrowings	307	172	-82	102	66
Dividends Paid	-26	-26	-37	-25	-25
Other Items Combined	-119	-13	-5	0	0
Cashflow from Financing	162	133	-124	77	41
Increase in Cash & Equivalents	42	1	157	318	303
Cash & Equivalents (Beginning)	242	284	285	442	760
Cash & Equivalents (Ending)	284	285	442	760	1063

Source: Company, Phillip Securities Research (Singapore) Estimates

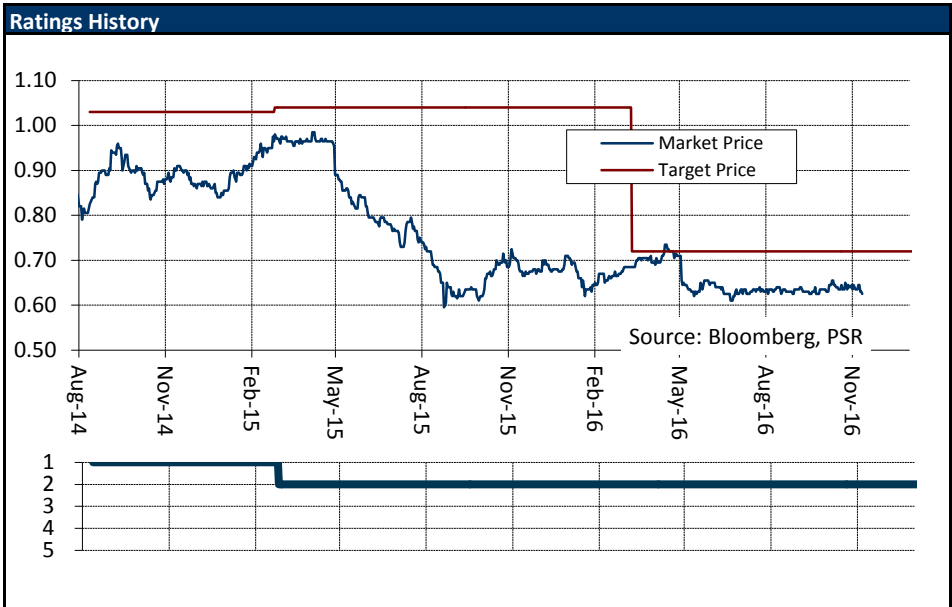
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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
Non-Current Assets	380	529	536	512	520
Development Properties	651	924	625	427	159
Completed ppts held-for-sale	0	40	39	39	39
Trade & Other Receivables	129	216	249	239	240
Cash & Short-Term Deposits	284	285	442	460	1,063
Other Current Assets	20	14	15	315	15
Current Assets	1,085	1,480	1,371	1,480	1,517
Total Assets	1,465	2,008	1,907	1,992	2,037
Loans & Borrowings	281	2	120	122	117
Trade & Other Payables	108	111	117	132	133
Other Liabilities	76	131	80	87	94
Current Liabilities	464	244	317	342	344
Loans & Borrowings	488	938	738	838	910
Deferred Tax Liabilities	15	8	16	16	16
Non-Current Liabilities	502	946	754	854	926
Total Liabilities	966	1,272	1,164	1,242	1,293
Non-Controlling Interests	0	0	-5	1	8
Shareholder Equity	499	736	743	750	743

Ratios

Y/E Dec	FY14	FY15	FY16E	FY17E
Valuations, Growth & Margins				
Valuations				
P/B	0.9	0.6	0.6	0.6
Dividend Yield	4.7	5.7	5.7	5.7
Growth				
Revenue	120%	-39%	-5%	1%
Net Income	283%	-78%	-63%	-5%
Shareholder Equity	48%	1%	1%	-1%
Margins				
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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