

Chip Eng Seng Corporation Ltd

Strong take-up expected at new development

SINGAPORE | REAL ESTATE | RESULTS

21 February 2017

- Chip Eng Seng Corporation's (CES) FY16 Revenue/PATMI exceeded our estimates and we have adjusted our forecast to reflect the better than expected performance
- Strong turnout at Grandeur Park Residences pre-launch event could indicate strong take-up rate at official launch slated in end-February
- Accelerated revenue recognition as handover of Williamson Estate is slated to happen earlier than expected

Results at a glance

(SGD mn)	4Q16	4Q15	y-y (%)	Comments
Revenue	250.0	153.9	62.4	Higher contribution from the Property Development and Construction divisions
Gross profit	45.7	42.4	7.8	Lower margins from property development segment
Profit before taxes	30.6	9.9	209.1	Higher fair value gains from Investments Properties and lower impairment loss on development properties
PATMI	14.90	9.80	52.0	

Source: Company, Phillip Securities Research (Singapore)

Launch of new development project, Grandeur Park Residences, expected by Feb-17 which will potentially add 9.6 cents to our RNAV estimates when completely sold

CES has pre-launched a 720-unit condominium development project, Grandeur Park Residences, last weekend on 18 February 2017. The development is located in the Tanah Merah district along New Upper Changi Road and approximately 200 metres away from the Tanah Merah MRT Station. We are expecting the take up rate for the development to be strong as majority of these units are smaller in sizes, translating to a lower purchase price which will aid homebuyers to secure financing in the face of the 60% total debt servicing ratio cooling measure. We expect ASP at the development to fall in the region of S\$1,350. As the site does not require the prefabricated prefinished volumetric construction system and is able to generate cost savings by taking the construction works in-house, we are optimistic that the Group is able to lock in a development margin in the high teens. We project the development will potentially add c.S\$135m in development profits and add c.18 cents (after taxes) in our projected RNAV when completely sold. We have not included potential contributions from Grandeur Park Residences in our current RNAV estimates.

Sales in Fulcrum muted in 4Q16 and expected to remain slow; Minimal price cuts expected as potential QC extension charges reasonably insignificant

Sales volume in the Group's 128-unit freehold development project, Fulcrum, was muted and the development has 56.2% unsold units in 4Q16. While competition intensifies with more development projects are due for qualifying certificate (QC) fees in CY17, we are expecting minimal price cuts for Fulcrum. This is because CES is not pressured to cut prices considering that QC extension fees is only due in early 2018, meaning that the developer still has some time to complete the sale of the remaining units in the development in order to avoid QC fees. However, in an unlikely scenario that CES does not sell any more units in the next 15 months, we view that the impact from incurring potential QC extension charges works out to be S\$3 million, translating to S\$35 PSF, which is insignificant when compared to the current average selling prices of S\$1,944 PSF in the development in CY16. Nonetheless, we remain confident that development margins on the sale of the remaining units in fulcrum will stay healthy on an average of 15%, and potentially add 2.5 cents to our RNAV estimates.

Investment Action

We remain optimistic on CES' property development operations as the Group continues to deliver. The Group is currently reaping the fruits of labour from previously launched developments that are already mostly sold. We are awaiting for the impending launch of Grandeur Park Residences which we view is likely to garner strong traction in tandem with a strong turnout in the pre-launch event of the development. We maintain an "Accumulate" rating on CES with an upgraded TP of **S\$0.81** based on our FY17 RNAV estimates.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 0.720
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.810
TOTAL RETURN	17.8%

COMPANY DATA

O/S SHARES (MN) :	621
MARKET CAP (USD mn / SGD mn) :	315 / 447
52 - WK HI/LO (SGD) :	0.74 / 0.61
3M Average Daily T/O (mn) :	0.71

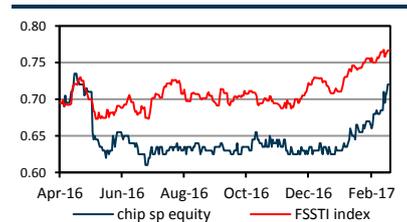
MAJOR SHAREHOLDERS (%)

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	8.3	15.2	15.8
STI RETURN	3.4	11.1	23.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY16	FY17E	FY18E
Gross Rev. (SGD mn)	748	706	661
Gross Profit (SGD mn)	146	134	126
Net Income (SGD mn)	36	40	40
P/B (x)	0.60	0.58	0.58
DPS (Cents)	4.0	4.0	4.0
Dividend Yield, %	5.6	5.6	5.6

Source: Company Data, PSR est.

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Earlier handover expected of units in fully sold development, Williamson Estate, in Australia; Sales in adjacent development encouraging and within expectations

We are expecting CES to hand over units in fully sold development, Williamson Estate, earlier than expected in FY17 as construction of the project is already in its advance stages. We have adjusted our projections to take into account of the earlier handover of the units. Upon handing over, we estimate the Group to recognise c.A\$28.9m in development profits which translates to 4.2 cents to our RNAV estimates (after taxes). While there is a slowdown in sales momentum in the Melbourne real estate market, we view that sales performance at the adjacent development, Willow Apartments, has been encouraging as the development is 56.3% sold as at 4Q16. We expect development margins to hover at the 15% mark despite the general slowdown which remains within our expectations.

Margins from Construction Segment is better than expected due to contributions from precast concrete contract; Order book able to provide revenue visibility till 2021

Although the Group's construction order book has slipped 14.5% quarter-on-quarter to S\$537.4m in 4Q16, we note that the segment's operating margin of 6.6% is above our expectations of a normalised margin of 5%. This is likely due to contributions from the contract involving the supply of precast concrete items which was awarded in August 2016. The current order book is able to provide revenue visibility till FY21. We are upbeat that the Group's longstanding track record and solid execution in constructing HDB flats will continue to benefit the Group in winning more contracts moving forward.

Valuations

RNAV Valuation (S\$ m)	Valuation (S\$ m)
NAV as at FY17E	792
Development surplus (Singapore)	130
Development surplus (Australia)	79
RNAV*	1001
Shares outstanding (m)	621
RNAV per share (S\$)	1.61
Discount (%)	50%
Target Price(S\$)	0.81
Current price (S\$)	0.720
Upside/(downside), (%)	11.9%

*Our RNAV estimates do not include projected contributions from Tower Melbourne and Grandeur Park Residences

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
Revenue	676	748	706	661	590
Cost of Sales	-515	-602	-572	-535	-478
Other Items of Income					
Int & Div Income	5	13	10	9	11
Other Income	5	13	10	9	11
Other Items of Expense					
Marketing & Distribution	-28	-7	-7	-7	-6
Administrative Expenses	-57	-60	-60	-56	-50
Finance Costs	-16	-20	-16	-13	-10
Share of Results of Associates	1	-0.7	1.0	1.2	1.4
Profit Before Tax	68	76	64	63	61
Income Tax Expense	-10	-24	-10	-9	-9
Net Income	63	36	40	40	40

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
Profit Before Tax	68	76	64	63	61
Depreciation & Amortization	6	7	7	7	7
Other Non-cash items	-10	64	-19	-9	48
OCF Before Changes in WC	64	147	53	61	116
Trade & Other Receivables	-27	170	-180	17	26
Trade & Other Payables	16	-13	28	-7	-11
Inventories	288	-506	374	296	190
Net interest expense	-13.9	-15.7	-13.7	-9.9	-7.0
Income Taxes Paid	-16	-20	-16	-13	-10
Other Items Combined	-74	-161	-75	-96	-162
Cashflow from Operations	300	-251	223	308	257
PPE & Investment Properties	-21	-4	-10	-14	-14
Other Items Combined	3	7	0	0	0
Cashflow from Investing	-18	3	-10	-14	-14
Loans & Borrowings	-82	312	-125	-206	-149
Dividends Paid	-37	-25	-25	-25	-25
Other Items Combined	-5	0	0	0	0
Cashflow from Financing	-124	287	-150	-231	-174
Increase in Cash & Equivalents	157	39	62	63	69
Cash & Equivalents (Beginning)	285	442	482	544	607
Cash & Equivalents (Ending)	442	482	544	607	676

Source: Company, Phillip Securities Research (Singapore) Estimates

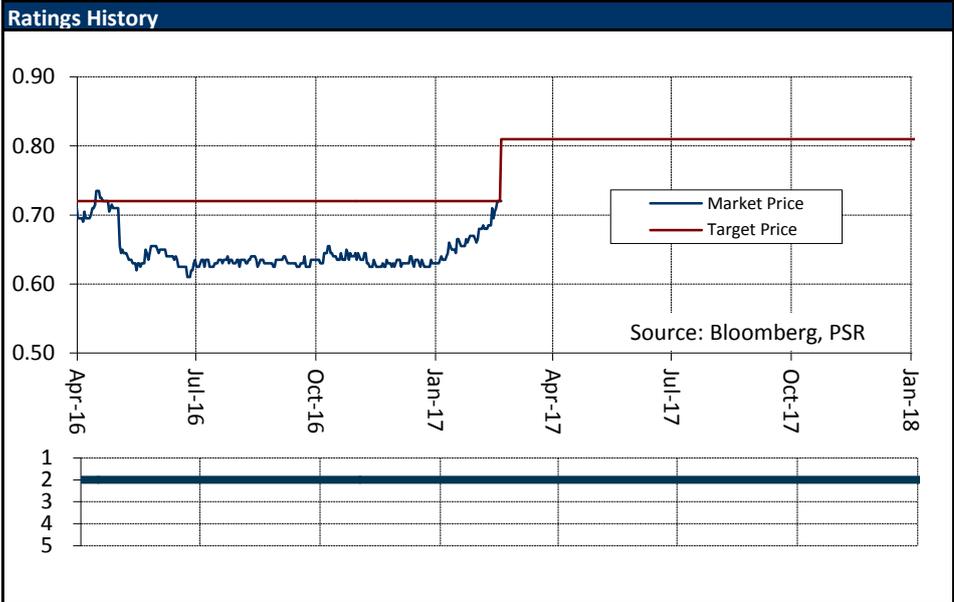
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
Property, Plant & Equipment	225	220	223	230	237
Investment Properties	287	296	301	311	321
Other Non-current Assets	23	12	10	3	-4
Non-Current Assets	536	528	534	544	554
Development Properties	625	1,128	754	458	268
Completed ppty held-for-sale	39	0	0	0	0
Trade & Other Receivables	249	81	261	245	218
Cash & Short-Term Deposits	442	482	544	607	676
Other Current Assets	15	14	14	14	14
Current Assets	1,371	1,704	1,572	1,323	1,176
Total Assets	1,907	2,232	2,106	1,866	1,730
Loans & Borrowings	120	234	127	112	100
Trade & Other Payables	117	86	114	107	96
Other Liabilities	80	82	91	100	107
Current Liabilities	317	402	333	319	303
Loans & Borrowings	738	937	918	727	590
Deferred Tax Liabilities	16	10	10	10	10
Non-Current Liabilities	754	947	928	737	600
Total Liabilities	1,164	1,456	1,315	1,056	903
Non-Controlling Interests	-5	11	25	38	50
Shareholder Equity	743	777	792	810	827

Ratios

Y/E Dec	FY15	FY16	FY17E	FY18E	FY19E
Valuations, Growth & Margins (%)					
Valuations					
P/B (X)	0.6	0.6	0.6	0.6	0.6
Dividend Yield (%)	5.7%	5.6%	5.6%	5.6%	5.6%
Growth					
Revenue	-39%	11%	-6%	-6%	-11%
Net Income	-78%	-43%	13%	0%	-1%
Shareholder Equity	1%	5%	2%	2%	2%
Margins					
Gross Profit Margin	30%	24%	20%	21%	21%
Net Profit Margin	24%	9%	5%	6%	6%



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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