

# Chip Eng Seng Corporation Ltd

## Roaring launch at Grandeur Park Residences

SINGAPORE | REAL ESTATE | UPDATE

07 March 2017

- Chip Eng Seng Corporation's (CES) launched a 720-unit condominium development, Grandeur Park Residences, on 4 March 2017
- S\$79m in development profits after taxes to be recognised progressively; SG12 cents added to our FY17 RNAV estimates
- Sales volume expected to moderate due to the larger size of remaining unsold units; Demand to remain strong amid declining unsold inventory in vicinity

### What is the news?

CES officially launched Grandeur Park Residences, a 720-unit condominium development project, last weekend on 4 March 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. CES sold 420 units (c.58%) on the first weekend of the new development's launch. Out of which, majority of these units are comprised of 1-bedroom and 2-bedroom apartments (39 sqm to 58 sqm).

### What do we think of this?

#### S\$79m in development profits to be recognised progressively; SG12 cents added to our FY17 RNAV estimates

We first highlighted the pre-launch details of Grandeur Park Residences in a [previous report dated 21 February 2017](#) where average selling prices (ASP) of S\$1,350 PSF transacted at the development came in within our expectations. We expect CES to generate cost savings in construction costs for the development, as the land site does not require prefabricated prefinished volumetric construction system as well as taking construction works in-house. We are expecting CES to potentially lock in a development margin in the range of 16 – 19% and progressively recognise development profits after taxes of S\$65.6 million from the sale of 420 units. We have included contributions from the sales of the 420 units in the new development and added SG12 cents in our FY17 RNAV estimates.

#### Sales volume expected to moderate in the development as remaining units are larger in size; Demand is likely to remain strong as inventory of unsold units in vicinity is declining

The sizes of remaining unsold units are mostly three bedrooms which are ranging from 82 sqm to 135 sqm, translating to purchase prices of S\$1.2 million to S\$2 million. We are expecting sales volume to moderate in the development for the rest of the 300 unsold units due to their higher purchase prices. This is because units with prices in the sub S\$1 million range will typically sell faster compared to more expensive units amid the 60% total debt servicing ratio requirement. However, we are optimistic that CES will be able to maintain the current ASP as demand is likely to remain strong amid a shrinking supply of unsold units in the vicinity. The two nearby developments, Eco (99.6%) and The Glades (84.4%) are mostly sold where the two developments have 116 units left unsold as at 4Q16.

### Investment Action

With a SG12 cents boost to our FY17 RNAV estimates (before taking a 50% discount to RNAV) from the the sale of 420 units in Grandeur Park Residences, we maintained our 'Accumulate' rating on CES and increased our TP to **S\$0.87** (previous S\$0.81) based on our FY17 RNAV estimates.

### Accumulate (Maintained)

LAST DONE PRICE	SGD 0.725
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.870
<b>TOTAL RETURN</b>	<b>25.5%</b>

#### 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

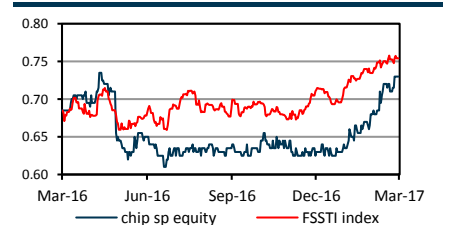
#### MAJOR SHAREHOLDERS (%)

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	796	750
Gross Profit (SGD mn)	146	151	142
Net Income (SGD mn)	36	44	44
P/B (x)	0.60	0.58	0.58
DPS (Cents)	4.0	4.0	4.0
Dividend Yield, %	5.6	5.5	5.5

Source: Company Data, PSR est.

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

## Valuations

<b>RNAV Valuation (S\$ m)</b>	<b>Valuation (S\$ m )</b>
NAV as at FY17E	792
Development surplus (Singapore)	211
Development surplus (Australia)	79
RNAV*	1082
Shares outstanding (m)	621
<b>RNAV per share (S\$)</b>	<b>1.74</b>
Discount (%)	50%
<b>Target Price(S\$)</b>	<b>0.87</b>
Current price (S\$)	0.73
<b>Upside/(downside), (%)</b>	<b>20.9%</b>

\*Our RNAV estimates do not include projected contributions from Tower Melbourne

## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>676</b>	<b>748</b>	<b>796</b>	<b>750</b>	<b>679</b>
Cost of Sales	-515	-602	-645	-608	-550
<b>Other Items of Income</b>					
Int & Div Income	5	13	10	9	11
Other Income	5	13	10	9	11
<b>Other Items of Expense</b>					
Marketing & Distribution	-28	-7	-8	-8	-7
Administrative Expenses	-57	-60	-68	-64	-58
Finance Costs	-16	-20	-18	-14	-12
<b>Share of Results of Associates</b>	<b>1</b>	<b>-0.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</b>
Profit Before Tax	68	76	71	70	68
<b>Income Tax Expense</b>	<b>-10</b>	<b>-24</b>	<b>-11</b>	<b>-10</b>	<b>-10</b>
Net Income	63	36	44	44	44

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
Profit Before Tax	68	76	71	70	68
Depreciation & Amortization	6	7	7	7	7
Other Non-cash items	-10	64	-17	-7	52
<b>OCF Before Changes in WC</b>	<b>64</b>	<b>147</b>	<b>61</b>	<b>70</b>	<b>127</b>
Trade & Other Receivables	-27	170	-213	17	26
Trade & Other Payables	16	-13	43	-7	-11
Inventories	288	-506	463	385	279
Net interest expense	-13.9	-15.7	-15.7	-11.6	-8.6
Income Taxes Paid	-16	-20	-18	-14	-12
Other Items Combined	-74	-161	-82	-105	-173
<b>Cashflow from Operations</b>	<b>300</b>	<b>-251</b>	<b>300</b>	<b>404</b>	<b>354</b>
PPE & Investment Properties	-21	-4	-10	-14	-14
Other Items Combined	3	7	0	0	0
<b>Cashflow from Investing</b>	<b>-18</b>	<b>3</b>	<b>-10</b>	<b>-14</b>	<b>-14</b>
Loans & Borrowings	-82	312	7	-225	-158
Dividends Paid	-37	-25	-25	-25	-25
Other Items Combined	-5	0	0	0	0
<b>Cashflow from Financing</b>	<b>-124</b>	<b>287</b>	<b>-18</b>	<b>-250</b>	<b>-183</b>
Increase in Cash & Equivalents	157	39	272	141	157
Cash & Equivalents (Beginning)	285	442	482	753	894
<b>Cash &amp; Equivalents (Ending)</b>	<b>442</b>	<b>482</b>	<b>753</b>	<b>894</b>	<b>1050</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

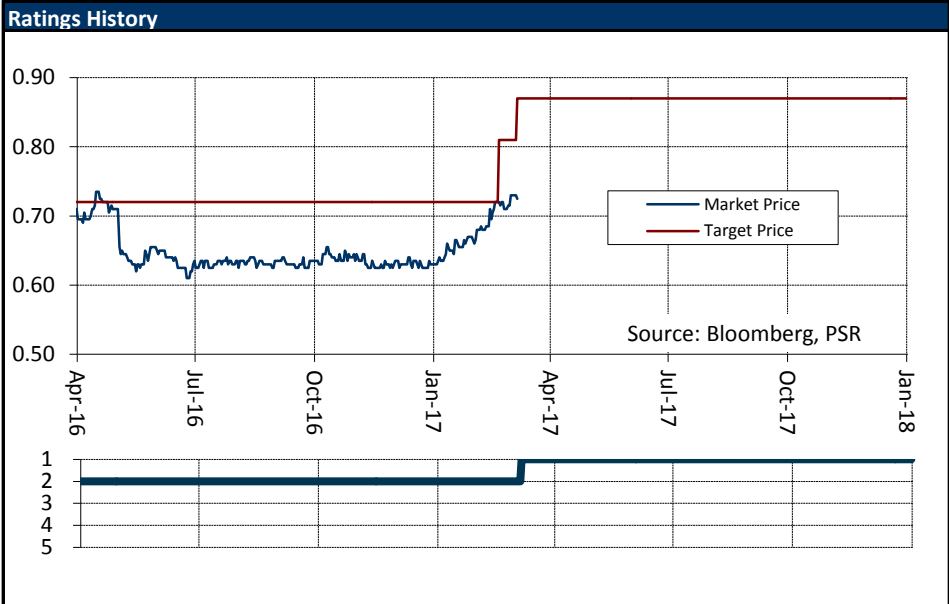
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	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
<b>Non-Current Assets</b>	<b>536</b>	<b>528</b>	<b>534</b>	<b>544</b>	<b>554</b>
Development Properties	625	1,128	664	279	0
Completed ppty held-for-sale	39	0	0	0	0
Trade & Other Receivables	249	81	294	278	251
Cash & Short-Term Deposits	442	482	753	894	1,050
Other Current Assets	15	14	14	14	14
<b>Current Assets</b>	<b>1,371</b>	<b>1,704</b>	<b>1,726</b>	<b>1,464</b>	<b>1,315</b>
<b>Total Assets</b>	<b>1,907</b>	<b>2,232</b>	<b>2,260</b>	<b>2,008</b>	<b>1,869</b>
Loans & Borrowings	120	234	143	128	116
Trade & Other Payables	117	86	129	122	110
Other Liabilities	80	82	92	102	110
<b>Current Liabilities</b>	<b>317</b>	<b>402</b>	<b>365</b>	<b>351</b>	<b>335</b>
Loans & Borrowings	738	937	1,035	825	679
Deferred Tax Liabilities	16	10	10	10	10
<b>Non-Current Liabilities</b>	<b>754</b>	<b>947</b>	<b>1,044</b>	<b>835</b>	<b>689</b>
<b>Total Liabilities</b>	<b>1,164</b>	<b>1,456</b>	<b>1,462</b>	<b>1,186</b>	<b>1,025</b>
Non-Controlling Interests	-5	11	27	42	55
<b>Shareholder Equity</b>	<b>743</b>	<b>777</b>	<b>797</b>	<b>822</b>	<b>845</b>

### Ratios

Y/E Dec	FY15	FY16	FY17E	FY18E	FY19E
<b>Valuations, Growth &amp; Margins (%)</b>					
<b>Valuations</b>					
P/B (X)	0.6	0.60	0.58	0.58	0.6
Dividend Yield (%)	5.7%	5.6%	5.5%	5.5%	5.5%
<b>Growth</b>					
Revenue	-39%	11%	6%	-6%	-9%
Net Income	-78%	-43%	24%	1%	-1%
Shareholder Equity	1%	5%	3%	3%	3%
<b>Margins</b>					
Gross Profit Margin	30%	24%	20%	21%	21%
Net Profit Margin	24%	9%	5%	5%	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

## 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 &amp; Gas | Energy

Chen Guangzhi - [chengz@phillip.com.sg](mailto:chengz@phillip.com.sg)

## 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 Capital 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.phillipcapiatal.in](http://www.phillipcapiatal.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 &amp; 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 10 330 Collins 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 &amp; 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 (DGCX)  
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

**Important Information**

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

**IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES**

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.