

# Chip Eng Seng Corporation Ltd

Solid execution in Singapore property development

## SINGAPORE | REAL ESTATE | 1Q17 RESULTS

- Chip Eng Seng Corporation's (CES) revenue and net income exceeded our estimate amid higher sales of units in Singapore property projects
- Weaker performance in Australia property development as cooling measures softened demand
- New HDB contract worth S\$110.8 million was awarded and has boosted construction order book to S\$568.2 million from S\$457.2 million
- Construction of a PPVC plant in Tuas Basin to generate long term cost savings and create new revenue stream

### Results at a glance

(SGD'mn)	1Q17	1Q16	YoY	Comments
Revenue	182	112	↑ 63%	Mainly due to higher contribution from property development and construction segments
Gross profit	29	21	↑ 41%	
Profit before tax	13	4	↑ 200%	Higher marketing and distribution and admin expenses as a result of a new property launch and higher staff costs
PATMI	6	1	↑ 663%	

Source: Company, Phillip Securities Research (Singapore)

### Buoyant performance in Singapore property development and expected to continue

CES launched Grandeur Park Residences in March 2017 and sold almost 72% out of a total of 722 units till date. With no other new projects planned for launch in the Tanah Merah district, we expect CES to sell more units in the next few quarters. CES has completely sold its 60%-owned High Park Residences, a 1,399 unit condominium, as at 1Q17. It has c.60% remaining revenue to be recognised till the project obtains TOP status in FY19. CES's other high end 128-unit condominium project, Fulcrum, is 78.9% sold amid promotional deferred payment schemes that were introduced in the quarter. With an increased sales momentum in Fulcrum units, we remain optimistic that the Group will be able to clear the remaining 28 units by end-2018 before qualifying certificate extension charges are due.

### Weaker performance in Australia property development from softer demand; Unlikely to improve in the near term

The Group sold three units of Willow Apartments, a 64-unit, residential apartment project in Doncaster, Melbourne, where it is 57.8% sold as at 1Q17. The slower sales performance was attributed to softer demand in the Melbourne property market, stemmed from cooling measures that were enacted by the Australian Government in a bid to curb the sharp rise in housing prices in the recent years. Consequently, we expect sales for the remaining units in Willow Apartments to remain slow. The development is already more than 50% sold and the Group still has about 12 months before the project is handed over sometime in FY18. In response to the weaker market, CES has delayed its launch of a residential apartment project in South Melbourne to 2H17. The Group continues to await for "further hearings and determination" of the litigation issue at its fully sold Tower Melbourne residential development project. We have not factored any development surplus into our RNAV estimates from Tower Melbourne development, and will not be doing so until there is more clarity of the case.

### Investment Action

We are upbeat on CES as it will be booking in revenue from the mostly sold projects that are currently being developed. The newest HDB contract win is timely as order book declined due to the completion of one of its construction projects during the quarter, and boosted the Group's order book and revenue visibility to end-2019. The vibrant property sales in Singapore will better help realise our RNAV estimate target of CES and will outweigh the slowing market in Melbourne albeit considerably small (less than c.10% of RNAV) based on the value of unsold units and land cost of unlaunched developments. We upgraded our rating on CES to 'Buy' and increased our TP to **S\$0.90** (previous S\$0.87) based on our FY17 RNAV estimates.

8 May 2017

### Buy (Upgraded)

LAST DONE PRICE	SGD 0.705
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.90
TOTAL RETURN	33.3%

### 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

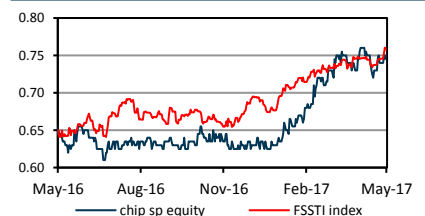
### MAJOR SHAREHOLDERS (%)

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	855	782
Gross Profit (SGD mn)	146	163	149
Net Income (SGD mn)	36	47	46
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.

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**New HDB construction contract win has boosted construction order book to S\$568 million and will last till end-2020**

During the quarter, CES has completed a HDB project at Bukit Batok (N1C13 and N2C23) which has led order book to decline to S\$457.2 million from S\$537.4 million. The Group has bagged a new contract (Bidadari Contract 8 and 9) worth S\$110.8 million from HDB involving the construction of nine blocks of flats and other community facilities for a period of 43 months. Including the new contract win, order book has been lifted up to S\$568 million from S\$457.2 million and will last till end-2020. We are expecting the Group to continue tendering for public housing construction contracts where the area remains to be their core expertise, however, the Group mentioned that they will also participate in public sector infrastructure projects.

**Construction of a PPVC plant in Tuas Basin to generate long term cost savings and create new revenue stream**

The Group is currently obtaining approval to construct a new prefabricated prefinished volumetric construction (PPVC) assembling plant where the production of PPVC construction materials including precast concrete and modular construction are among the main purpose of the plant's construction. We expect the plant to be completed and operational by the end of CY17 and will cost about S\$10 million in capital expenditure including land costs. While the plant is expected to generate cost savings in supplying PPVC construction materials for the Group, it will also help the Group in tendering for other public sector projects as the Singapore Government is strongly advocating construction companies to improve productivity in the construction sector and one of such area is to adopt the use of PPVC construction materials. In August 2016, the Group was awarded a contract worth S\$75.9 million by GS Engineering for the supply of PPVC concrete to be used for the construction of a 4-in-1 rail and bus depot and reception tunnels for the Thomson-East Coast line. We opine that the Group is likely to win more of such supply contracts moving forward.

## Valuations

<b>RNAV Valuation (S\$ m)</b>	<b>Valuation (S\$ m)</b>
NAV as at FY17E	801
Development surplus (Singapore)	238
Development surplus (Australia)	79
RNAV*	1118
Shares outstanding (m)	621
<b>RNAV per share (S\$)</b>	<b>1.80</b>
Discount (%)	50%
<b>Target Price(S\$)</b>	<b>0.90</b>
Current price (S\$)	0.71
<b>Upside/(downside), (%)</b>	<b>26.8%</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>855</b>	<b>782</b>	<b>724</b>
Cost of Sales	-515	-602	-692	-633	-587
<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	-9	-8	-7
Administrative Expenses	-57	-60	-73	-66	-62
Finance Costs	-16	-20	-19	-15	-13
<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	75	72	71
<b>Income Tax Expense</b>	<b>-10</b>	<b>-24</b>	<b>-11</b>	<b>-11</b>	<b>-11</b>
Net Income	63	36	47	46	46

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17E	FY18E	FY19E
Profit Before Tax	68	76	75	72	71
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>65</b>	<b>73</b>	<b>130</b>
Trade & Other Receivables	-27	170	-235	27	21
Trade & Other Payables	16	-13	52	-12	-9
Inventories	288	-506	522	417	324
Net interest expense	-13.9	-15.7	-17.0	-12.2	-9.4
Income Taxes Paid	-16	-20	-19	-15	-13
Other Items Combined	-74	-161	-85	-107	-177
<b>Cashflow from Operations</b>	<b>300</b>	<b>-251</b>	<b>349</b>	<b>443</b>	<b>397</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	94	-272	-145
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>69</b>	<b>-297</b>	<b>-170</b>
Increase in Cash & Equivalents	157	39	408	132	213
Cash & Equivalents (Beginning)	285	442	482	890	1021
<b>Cash &amp; Equivalents (Ending)</b>	<b>442</b>	<b>482</b>	<b>890</b>	<b>1021</b>	<b>1234</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

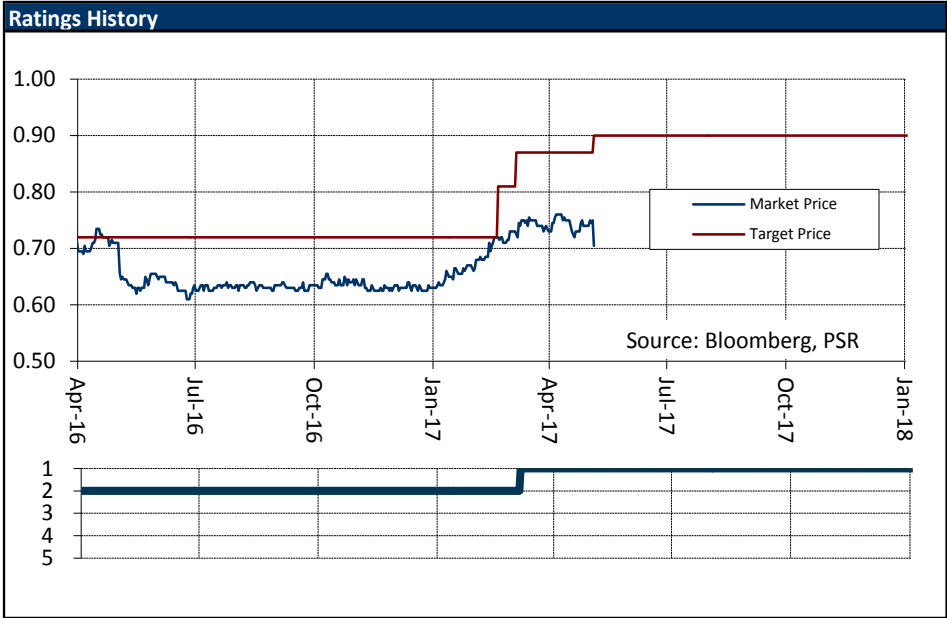
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### 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	605	189	-135
Completed ppty held-for-sale	39	0	0	0	0
Trade & Other Receivables	249	81	316	289	268
Cash & Short-Term Deposits	442	482	890	1,021	1,234
Other Current Assets	15	14	14	14	14
<b>Current Assets</b>	<b>1,371</b>	<b>1,704</b>	<b>1,825</b>	<b>1,513</b>	<b>1,381</b>
<b>Total Assets</b>	<b>1,907</b>	<b>2,232</b>	<b>2,359</b>	<b>2,057</b>	<b>1,935</b>
Loans & Borrowings	120	234	154	133	123
Trade & Other Payables	117	86	138	127	117
Other Liabilities	80	82	93	103	111
<b>Current Liabilities</b>	<b>317</b>	<b>402</b>	<b>385</b>	<b>362</b>	<b>352</b>
Loans & Borrowings	738	937	1,111	860	724
Deferred Tax Liabilities	16	10	10	10	10
<b>Non-Current Liabilities</b>	<b>754</b>	<b>947</b>	<b>1,121</b>	<b>870</b>	<b>734</b>
<b>Total Liabilities</b>	<b>1,164</b>	<b>1,456</b>	<b>1,560</b>	<b>1,232</b>	<b>1,086</b>
Non-Controlling Interests	-5	11	28	43	58
<b>Shareholder Equity</b>	<b>743</b>	<b>777</b>	<b>801</b>	<b>827</b>	<b>853</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%	14%	-9%	-7%
Net Income	-78%	-43%	30%	-2%	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

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