

Chip Eng Seng Corporation Ltd

Riding the SG property cycle well



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SINGAPORE | REAL ESTATE | 3Q17 RESULTS (Change of Analyst)

- Surge in revenue driven mainly by 3 Singapore residential projects.
- Better performance from hospitality assets.
- Cancellation of Melbourne Tower purchase contracts could enable Group to move on with other exit options. Australian residential sales remain slow. Potential launch of another South Melbourne project delayed.
- Maintain "Buy". We raise our TP to S\$1.21, as we narrow the discount to RNAV from 50% to 40% and incorporated construction business into our target price.

Results at a glance

(SGD mn)/Sept Yr Dec	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	209.2	151.8	37.8	Driven mainly by property development segment
-Property developments	145.8	67.9	114.7	Progressive recognition of High Park Residences/Grandeur Park, Pick-up in sales at Fulcrum, progressive handover of Melbourne project
-Construction	50.4	74.1	(31.9)	Absence of revenue from construction projects
-Hospitality	10.4	7.1	47.6	Contribution from Maldives, improved occupancy at Park
-Property investments/others	2.5	2.7	(7.7)	Absence of contribution from divested 420 St. Kilda Road
Gross Profit	35.1	27.0	30.2	Lower profitability of recognised development projects
Profit before tax	24.4	12.9	90.1	One-off divestment gain of c.S\$13mn for St. Kilda office
PATMI	14.05	5.71	145.8	

Source: Company, PSR

The Positives

+ Revenue pick-up is driven by momentum in Singapore residential property sales. Revenue recognition from Grandeur Park (estimated GDV S\$744mn) commenced in the quarter. Sales momentum has been strong since its March launch. Currently it is 82% sold. Fulcrum, which was 43.8% sold as at end FY16, is now 99.2% sold. Selling prices are in-line with our current model estimates.

+ Better performance from hospitality assets. Revenue from hospitality segment grew 48% to S\$10.4mn. Apart from Grand Park Kodhipparu, Maldives which opened in June 2017, improved occupancy for Park Hotel Alexandra to low 80% (FY16: mid 70%) also contributed to the increase. Improving corporate demand (>50% of demand) and tourist arrivals were contributing factors.

+ Cancellation of Melbourne Tower purchase contracts could enable Group to move on with other exit options. Construction progress on this project has stalled since 2013 due to ongoing legal proceedings with the owner of an adjoining property. This owner was concerned about the impact of demolition works on his property. The protracted legal proceedings have led to the Group exercising its contractual right under the outstanding sales contracts to rescind all outstanding contracts with purchasers. The project was originally c.100% sold (579 units) with an estimated GDV of S\$358mn. Management is exploring other viable exit options with regard to the property and any materialized profits will be accretive to our RNAV. We note that Melbourne city home prices have increased c.50%¹ from 2012-2013 when the Group booked in most of the original sales for the project. In view of the uncertainties surrounding the project, we will not factor in any contributions from Tower Melbourne until we get further clarity.

The Negatives

- Australian residential sales remain slow. Potential launch delayed. As a result of tightened rules for foreign buyers, residential sales in the Group's Australian projects remain slow. We are not overly concerned as we estimate Willow Apartments' GDV to be small at S\$53mn. Our forecasts are for the project revenue to be fully recognized by end FY18. The Group's intended launch for another South Melbourne project is also delayed from 2H17 to 2Q18, in view of the slow sentiment.

¹Source: Australian Bureau of Statistics

Buy (Maintained)

LAST DONE PRICE	SGD 0.96
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 1.21
TOTAL RETURN	30.2%

COMPANY DATA

BLOOMBERG CODE	CHIP SP
O/S SHARES (MN):	621
MARKET CAP (USD mn / SGD mn):	438 / 596
52 - WK HI/LO (SGD):	1 / 0.62
3M Average Daily T/O (mn):	2.73

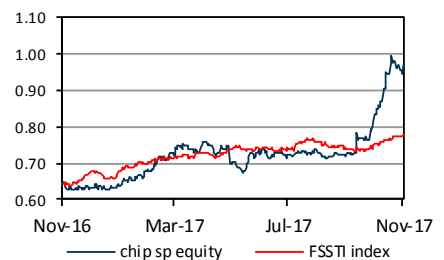
MAJOR SHAREHOLDERS (%)

LIM TIAM SENG	12.5%
LIM CHUAN TIANG	7.1%
CHIA LEE MENG	4.1%
DIMENSIONAL FUND ADVISORS LP	2.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	16.8	33.6	59.8
STI RETURN	3.8	3.5	26.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar S\$mn	FY15	FY16	FY17E	FY18E
Gross Rev.	676	748	809	740
Gross Profit	161	146	154	142
Net Income	63	36	45	44
ROE (%)	8.5	4.6	5.7	4.1
P/B (x)	0.60	0.59	0.58	0.58
DPS (Cents)	4.0	4.0	4.0	4.0
Dividend Yield (%)	5.7	5.6	5.5	5.5

Source: Company Data, PSR est.

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- **Provision of S\$4.5mn for foreseeable losses pertaining to a construction project.** This is due to higher than expected raw material costs. Nonetheless, management does not expect further significant provisions for its existing construction projects.

Outlook

Revenue for FY17/18 will continue to be supported by progressive revenue recognition from High Park (GDV S\$650mn), Grandeur Park (GDV S\$744mn) and Willow Apartments (GDV S\$48mn). RNAV boost could come from a favourable exit from Tower Melbourne.

Maintain “Buy” with higher TP of S\$1.21

We have adjusted our model to incorporate valuation of the Group’s construction business as we believe are nearing the sector cycle bottom. In view of the current upcycle in the property market, we have narrowed the discount to RNAV from the previous 50% to 40% for mid-cap developers under our coverage. CES remains a good proxy to the upcycle in the Singapore residential market with its proven track record in execution and well-stocked land bank, in particular, the Woodleigh site due for launch in 2H18, with an estimated GDV of S\$720mn (60% stake).

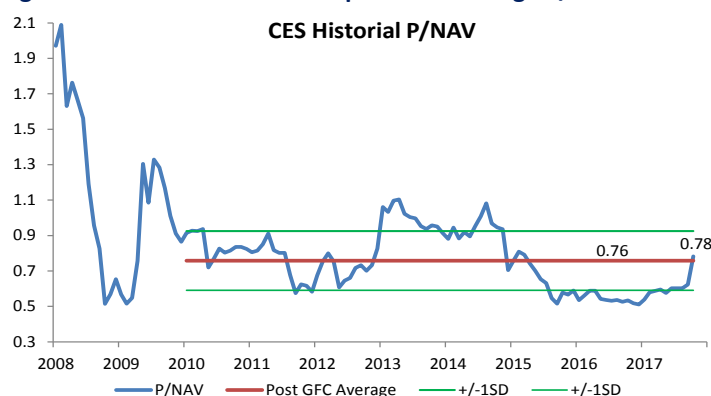
Figure 1. RNAV Table

RNAV Table	Valuation (S\$'m)
Development Properties	892
+	
Development surplus (Singapore)	417
Development surplus (Australia)	29
+	
Investment Properties	276
-	
FY17E Net Cash (Debt)	(547.4)
=	
RNAV*	1,066
Shares outstanding (m)	621
RNAV per share (S\$)	1.72
Discount (%)	40%
Discounted RNAV (excl construction business) (S\$)	1.03
Construction business valuation @5x PE	0.18
SOTP Target price	1.21
Forecast dividend	0.040
Current price (S\$)	0.96
Upside/(downside), (%)	30.2%

Source: PSR

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

Figure 2: CES trades at close to post-GFC average P/NAV



Financials

Income Statement

Y/E Dec, SGD'mn	FY15	FY16	FY17E	FY18E	FY19E
Revenue	676	748	809	745	690
Cost of Sales	-515	-602	-656	-603	-559
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	-8	-7	-7
Administrative Expenses	-57	-60	-69	-63	-59
Finance Costs	-16	-20	-18	-14	-12
Share of Results of Associates	1	-1	1	1	1
Profit Before Tax	68	76	72	70	69
Income Tax Expense	-10	-24	-11	-10	-10
Net Income	63	36	45	44	45

Cash Flow

Y/E Dec, SGD'mn	FY15	FY16	FY17E	FY18E	FY19E
Profit Before Tax	68	76	72	70	69
Depreciation & Amortization	6	7	7	7	7
Other Non-cash items	-10	64	0	0	0
OCF Before Changes in WC	64	147	79	77	76
Trade & Other Receivables	-27	170	-100	7	44
Trade & Other Payables	16	-13	45	-10	-9
Inventories	288	-506	236	10	-85
Net interest expense	-14	-16	-16	-12	-9
Income Taxes Paid	-16	-20	-18	-14	-12
Other Items Combined	-74	-161	-99	-112	-122
Cashflow from Operations	300	-251	204	23	-42
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	0	0	0
Dividends Paid	-37	-25	-25	-25	-25
Other Items Combined	-5	0	0	0	0
Cashflow from Financing	-124	287	-25	-25	-25
Increase in Cash & Equivalents	157	39	169	-15	-81
Cash & Equivalents (Beginning)	285	442	482	651	635
Cash & Equivalents (Ending)	442	482	651	635	554

Source: Company, Phillip Securities Research (Singapore) Estimates

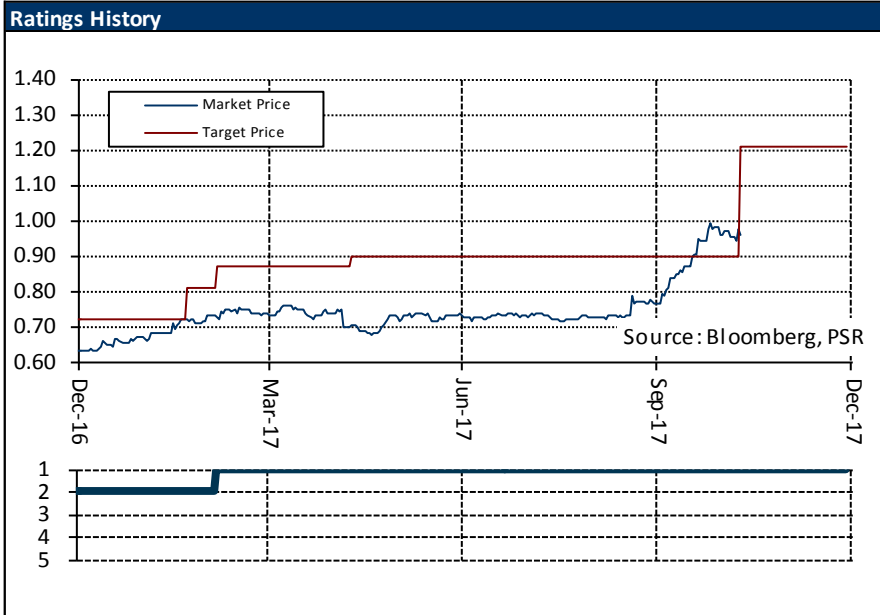
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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	892	882	967
Completed ppty held-for-sale	39	0	0	0	0
Trade & Other Receivables	249	81	182	174	130
Cash & Short-Term Deposits	442	482	651	635	554
Other Current Assets	15	14	14	14	14
Current Assets	1,371	1,704	1,738	1,705	1,665
Total Assets	1,907	2,232	2,272	2,249	2,219
Loans & Borrowings	120	234	146	127	117
Trade & Other Payables	117	86	131	121	112
Other Liabilities	80	82	93	102	110
Current Liabilities	317	402	369	349	339
Loans & Borrowings	738	937	1,052	820	690
Deferred Tax Liabilities	16	10	10	10	10
Non-Current Liabilities	754	947	1,062	830	700
Total Liabilities	1,164	1,456	1,485	1,179	1,039
Non-Controlling Interests	-5	11	27	42	56
Shareholder Equity	743	777	787	1,070	1,180

Valuations and Key Ratios

Y/E Dec	FY15	FY16	FY17E	FY18E	FY19E
Valuations					
P/B (X)	0.60	0.59	0.58	0.58	0.43
Dividend Yield (%)	5.7%	5.6%	5.5%	5.5%	5.5%
Growth					
Revenue	-39%	11%	8%	-8%	-7%
Net Income	-78%	-43%	25%	-1%	1%
Shareholder Equity	1%	5%	1%	36%	10%
Margins					
Gross Profit Margin	30%	24%	20%	21%	21%
Net Profit Margin	24%	9%	5%	5%	6%
Key Ratios					
ROE(%)	8.5%	4.6%	5.7%	4.1%	3.8%
ROA(%)	3.3%	1.6%	2.0%	2.0%	2.0%
Gearing (X)	45.0%	52.5%	52.7%	42.1%	36.4%



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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