

SC Global Developments Ltd

Fatigue signs surfacing

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Industry: Property

Phillip Securities Research Pte Ltd

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Report type: Full Year Results

Company Overview

SC Global Developments is a developer of up-market residences of rare and exquisite design quality. The Group embraces a philosophy of delivering the promise of "The Ultimate Living" experience with all its projects.

- 4Q11 revenue \$88.7mn (-56%y-y) due to lower progress recognitions, PATMI sank into red at -\$18.6mn.
- Allowance for impairment of \$25mn for Admore Park
- Has fewer buffers to cushion the slow sales progress
- Downgrade to Reduce with fair value lowered to \$1.00

What is the news?

4Q11 revenue was lower at \$88.7mn (-56%y-y) as significant progress recognition from The Marq and Hilltops was registered in the same period last year. Coupled with an allowance for impairment of \$25mn relating to its development project at Ardmore Park, 4Q11 PATMI sank into red at -\$18.6mn. On the full year basis, PATMI recorded 42% y-y growth to \$132.2mn.

Income Statement	4Q10 (Restated)	4Q11	Y-Y Δ	FY10 (Restated)	FY11	Y-Y Δ
(S\$ 'mn)						
Revenue	200.6	88.7	-56%	743.2	769.1	3%
EBIT	77.5	-21.8	NM	148.1	184.7	25%
PBT	75.6	-20.1	NM	141.0	171.7	22%
PATMI	45.3	-18.6	NM	92.9	132.2	42%

Source: Company

How do we view this?

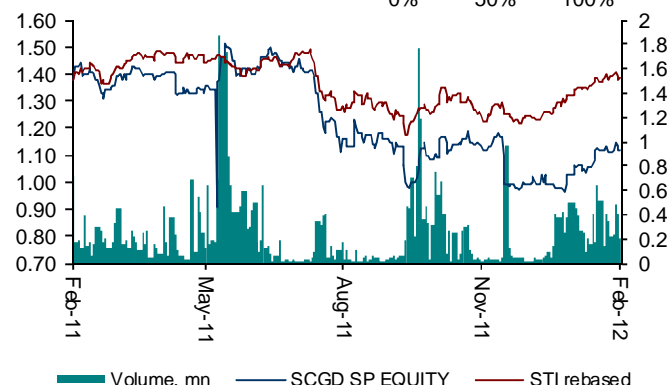
We believe a combination of factors resulted in the below expectations 4Q11 results: 1) completed units of Martin No 38, which obtained TOP in late 4Q11, had yet to be handed over to owners, thus sales only recognizable in 1H12, 2) Lower contribution from AVJennings in 2011, 3) Impairment charge of \$25mn. Going forward, SC Global will have fewer buffers to cushion the slow sales progress as most of the projects in Singapore are completed. Its ability to convert inventories into cash is vital going forward.

Investment Actions?

Under the harsh policy pressures environment, especially the ABSD, we continue to see challenging times ahead for SC Global. We lower our RNAV estimates and ascribe a higher discount to RNAV of 65% to reflect the slow sales progress. Fair value is thus lowered from \$1.50 to \$1.00. Downgrade to Reduce. Any relaxations in government policy will serve as upside catalyst for the share price.

SC Global Development Ltd

Rating	4	Reduce
- Previous Rating	3	Neutral
Target Price (SGD)	1.00	
- Previous Target Price (SGD)	1.50	
Closing Price (SGD)	1.115	
Expected Capital Gains (%)	-10.6%	
Expected Dividend Yield (%)	2.7%	
Expected Total Return (%)	-7.9%	
Raw Beta (Past 2yrs w weekly data)	1.15	
Market Cap. (USD mn / SGD mn)	367 / 462	
Enterprise Value (USD mn / SGD mn)	1576 / 2035	
3M Average Daily T/O (mn)	0.2	
52 week range (SGD)	0.91 - 1.53	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Sae Peng Cheong	53.9
2. Wheelock Properties S Ltd	15.8
3. Legg Mason Inc	4.8

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (SGD mn)	769	522	454	531
Net Profit, adj. (SGD mn)	132	20	15	27
EPS, adj. (SGD)	0.32	0.05	0.04	0.07
P/E (X),adj.	3.5	22.6	30.2	17.0
BVPS (SGD)	1.59	1.62	1.63	1.66
P/B (X)	0.7	0.7	0.7	0.7
DPS (SGD)	0.02	0.03	0.03	0.03
Div. Yield (%)	1.8%	2.7%	2.7%	2.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

RNAV

Analyst

Bryan Go
gock@phillip.com.sg
+65 6531 1792

Fewer buffers from project progressive recognition

SC Global sold 16 units from its Singapore projects in 2011, lower than the 20 units sold in the previous year. Although 4Q11 seen one unit sold from The Marq at a record price of \$6,841psf, we believe the ABSD implemented last December will continue to depress its sales going forward. Having completed The Marq On Paterson Hill, Hilltop and Martin No. 38 in 2011, SC Global now has fewer buffers in its revenue recognition going forward. New sales progress becomes more important to keep the company profitable.

Fig 2. Sales progress of residential projects in Singapore

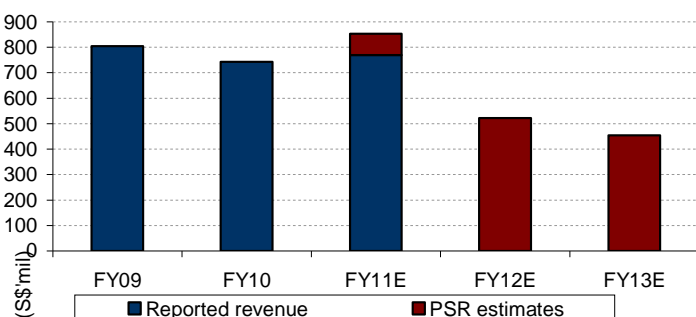
Residential Projects	Total Units	Units Sold in FY10	Units Sold in FY11	% Sold To Date
The Marq on Paterson Hill (Paterson Hill)	66	0	4	47%
Hilltops (Cairnhill Circle)	241	0	2	14%
Martin No 38 (Martin Road)	91	19	9	71%
Seven Palm (Sentosa Cove)	41	1	1	24%

Source: URA monthly sales data, PSR estimates

Lower 4Q11 results could be due to completed units pending hand over

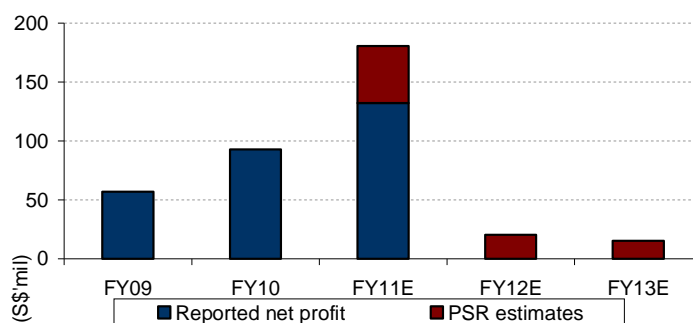
FY11 reported revenue and PATMI were 90% and 73% respectively of our estimates. Excluding the allowance for impairment of \$25mn, reported PATMI would have been 86% of our estimates, still below expectations. We believe the lower 4Q11 results were due to Martin No 38 which obtained TOP towards the end of 4Q11, and many of the sold units had yet to be handed over to owner in the quarter. Thus part of the sales may be recognized in 1H12. Contributions from AVJennings were lower with PBT at \$9.5mn in FY11 compared to \$29.3mn in FY10. In the context of falling revenue while operating and finance costs remain high, we estimate profit will fall significantly in 2012 if no improvement is achieved in sales progress in its completed projects.

Fig 3. Reported revenue vs PSR estimates



Source: Company, PSR

Fig 4. Reported PATMI vs PSR estimates



Source: Company, PSR

Downgrade to Reduce with lower fair value of \$1.00

We roll over our RNAV and lower the sales progress estimates to its Singapore residential projects, RNAV is lowered to \$2.85. We also ascribe a higher discount of 65% to RNAV (previously 50%) to reflect the unfavorable market condition at the high end residential segment in Singapore. Fair value is thus lowered from \$1.50 to \$1.00. Downgrade to Reduce.

SC Global RNAV	
Surplus from investment properties (S\$ mn)	0.0
NPV of development properties (S\$ mn)	518.15
Book value in FY2011 (S\$ mn)	655.27
RNAV (S\$ mn)	1173.42
Total shares issued (mn)	412.01
RNAV per share	2.85
Discount (%)	65%
Fair value (S\$)	1.00

FYE Dec	FY10*	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	4.8	3.5	22.6	30.2	17.0
P/B (X)	0.8	0.7	0.7	0.7	0.7
EV/EBITDA (X), adj.	13.5	10.9	40.6	57.6	46.4
Dividend Yield (%)	4.5%	1.8%	2.7%	2.7%	2.7%
Per share data (SGD)					
EPS, reported	0.23	0.32	0.05	0.04	0.07
EPS, adj.	0.23	0.32	0.05	0.04	0.07
DPS	0.050	0.020	0.030	0.030	0.030
BVPS	1.31	1.59	1.62	1.63	1.66
Growth & Margins (%)					
Growth					
Revenue	-7.7%	3.5%	-32.2%	-13.0%	17.0%
EBITDA	88.3%	24.2%	-73.1%	-29.6%	24.2%
EBIT	92.9%	24.7%	-74.1%	-31.3%	25.2%
Net Income, adj.	63.2%	42.4%	-84.7%	-25.0%	77.6%
Margins					
EBITDA margin	20.2%	24.3%	9.6%	7.8%	8.3%
EBIT margin	19.9%	24.0%	9.2%	7.3%	7.8%
Net Profit Margin	14.6%	17.8%	5.0%	3.6%	5.1%
Key Ratios					
ROE (%)	18.2%	22.1%	3.1%	2.3%	4.0%
ROA (%)	3.5%	4.6%	0.7%	0.6%	1.2%
Net Debt/(Cash)	1475	1399	875	804	677
Net Gearing (X)	208.9%	170.3%	104.3%	95.3%	78.9%
Income Statement (SGD mn)					
Revenue	743	769	522	454	531
EBITDA	150	187	50	35	44
Depreciation & Amortisation	2	2	2	2	3
EBIT	148	185	48	33	41
Net Finance (Expense)/Income	(9)	(21)	(26)	(22)	(18)
Other items	0	0	0	0	0
Associates & JVs	2	8	9	9	9
Profit Before Tax	141	172	31	20	33
Taxation	(33)	(35)	(5)	(3)	(6)
Profit After Tax	108	137	26	16	27
Non-controlling Interest	16	4	6	1	0
Net Income, reported	93	132	20	15	27
Net Income, adj.	93	132	20	15	27

*Restated

Source: PSR

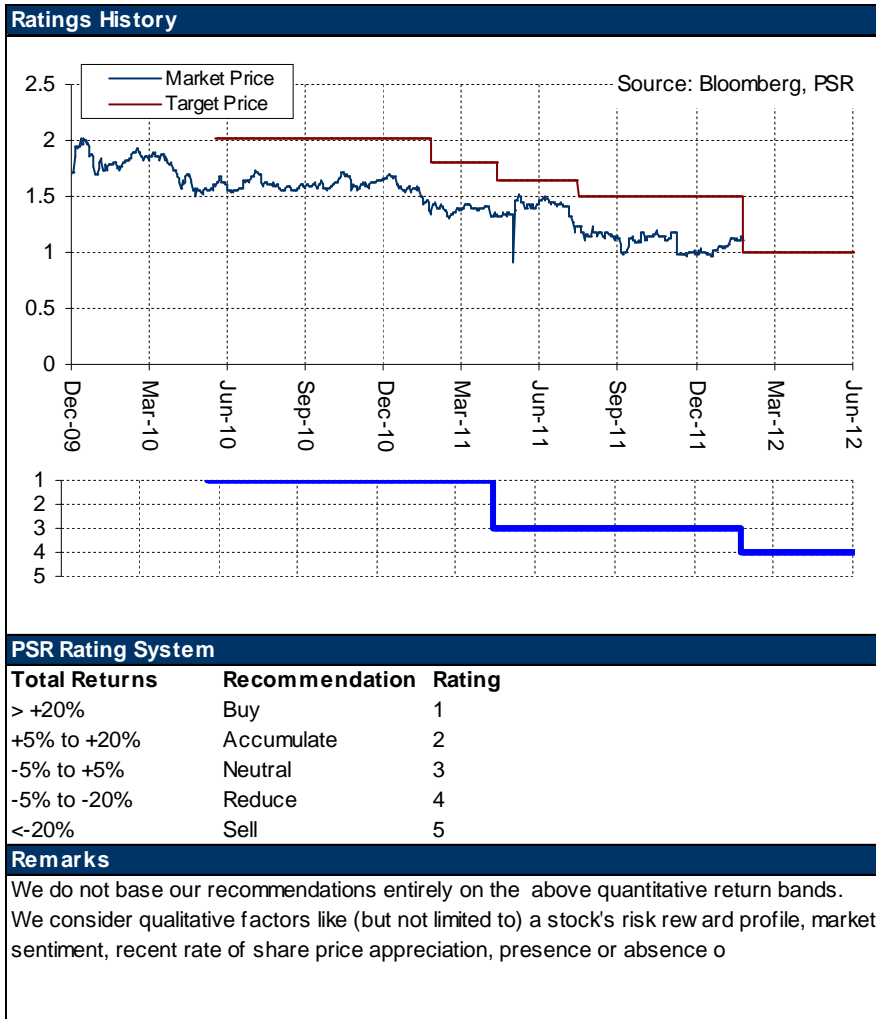
FYE Dec	FY10*	FY11	FY12F	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	23	24	23	22	22
Intangibles	4	4	4	4	4
Associates & JVs	50	39	39	39	39
Investment Property	69	69	69	69	69
Others	2	1	1	1	1
Total non-current assets	148	137	136	136	135
Inventories	2,401	2,285	1,831	1,765	1,656
Accounts Receivables	70	244	165	144	168
Development property	0	0	0	0	0
Cash	199	222	589	511	141
Others	0	0	0	0	0
Total current assets	2,670	2,751	2,585	2,421	1,965
Total Assets	2,818	2,888	2,722	2,556	2,100
Short term loans	832	33	250	503	225
Accounts Payables	334	254	228	207	233
Others	11	36	36	36	36
Total current liabilities	1,176	323	513	746	494
Long term loans	843	1,588	1,214	812	593
Others	92	155	155	155	155
Total non-current liabilities	935	1,743	1,369	967	748
Non-controlling interest	165	166	172	173	173
Shareholder Equity	541	655	667	670	685

Cashflow Statements (SGD mn)

CFO					
PBT	141	172	31	20	33
Adjustments	13	40	28	25	20
Cash from ops before WC changes	154	211	59	44	53
WC changes	(184)	(42)	505	67	111
Cash generated from ops	(30)	169	565	111	164
Taxes paid, net	(3)	(11)	(5)	(3)	(6)
Interest paid	0	0	0	0	0
Cashflow from ops	(34)	158	559	108	158
CFI					
CAPEX, net	(1)	(3)	(2)	(2)	(2)
Dividends from associates & JVs	7	3	0	0	0
Dividends/Interest from Investments	1	1	0	0	0
Purchase/sale of investments	2	0	0	0	0
Investments in subs & associates	(0)	(6)	0	0	0
Others	0	0	0	0	0
Cashflow from investments	9	(4)	(2)	(2)	(2)
CFF					
Share issuance	12	0	0	0	0
Purchase of treasury shares	(3)	(2)	0	0	0
Loans, net of repayments	(35)	(104)	(183)	(171)	(514)
Dividends to minority interests	(9)	(5)	0	0	0
Dividends to shareholders & capital reduction	(6)	(21)	(8)	(12)	(12)
Others	(1)	0	0	0	0
Cashflow from financing	(42)	(132)	(191)	(184)	(527)
Net change in cash	(67)	22	366	(77)	(370)
Effects of exchange rates	2	2	0	0	0
CCE, end	199	222	589	511	141

*Restated

Source: PSR



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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Strategy
+65 6531 1685
leekj@phillip.com.sg

Joshua Tan
Strategist
+65 6531 1249
joshuatan@phillip.com.sg

Magdalene Choong
Investment Analyst
SG & US Financials, Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, Telecom.
+65 6531 1221
derrickhengch@phillip.com.sg

Nicholas Low, CFA
Investment Analyst
Commodities, Offshore & Marine
+65 6531 1535
nicholaslowkc@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Peter Lee
Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@phillip.com.sg

Ken Ang
Investment Analyst
Financials
+65 6531 1793
kenangwy@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

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

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

UNITED KINGDOM

King & 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

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

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) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

FRANCE

King & 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

UNITED STATES

Phillip Futures 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