

# Chip Eng Seng Corporation Ltd

Strong revenue visibility in FY18



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## SINGAPORE | REAL ESTATE | FY17 RESULTS

- 39% yoy jump in contributions from property development segment.
- Improved occupancies at Singapore and Maldives hotels.
- Timely replenishing of construction order book with S\$168mn design and build contract from HDB.
- Maintain Buy with unchanged STOP-derived TP of S\$1.21 (40% discount to RNAV).

### Results at a glance

(SGD mn)/Dec Yr End	FY17	FY16	YoY (%)	Comments
Gross Revenue	859.7	748.0	14.9	Improved performance from Hospitality and Property development segments
-Property developments	571.7	411.7	38.8	Progressive recognition of High Park Residences/Grandeur Park, Pick-up in sales at Fulcrum, progressive handover of Melbourne project, Williamson Estate
-Construction	239.3	298.2	(19.8)	Absence of new construction projects and slower precast components sales
-Hospitality	38.6	27.4	40.8	Higher occupancy rates at Singapore and Maldives hotels
-Property inv/ others	10.1	10.6	(5.0)	Divestment of 420 St. Kilda Road in Melbourne
Gross Profit	152.5	146.5	4.1	Lower profitability of recognised development projects
Profit before tax	70.2	76.1	(7.8)	Increase in administrative and finance costs
PATMI	35.51	35.69	(0.5)	Lower income tax expense

Source: Company, PSR

### The Positives

+ **39% yoy jump in contributions from property development segment.** Continued progressive revenue recognition from the two substantially sold local residential projects High Park (fully sold) and Grandeur Park Residences (88% sold) should continue to support earnings over the next two FYs. We expect c.S\$200mn of development profit contribution from these two projects over the next 2 FYs.

+ **Improved performance from hospitality assets.** Average occupancy improved for Park Hotel Alexandra (to above 80% vs mid 70% for FY16) and the newly opened Grand Park Kodhipparu, Maldives (50+%). This is in tandem with higher corporate demand and tourist arrivals.

+ **Timely replenishing of construction order book with S\$168mn design and build contract from HDB.** With the latest contract win, total construction order book should stand at c.\$570mn currently. We also expect higher margins from the latest contract, possibly in the low teens due to the design and build nature of the contract (vs the mid-single digit margins for typical pure construction projects).

### The Negatives

- **Slower momentum in Australian residential sales.** Willow Apartments is 69% sold as at end FY17 (vs 53% at end FY16). Construction for the project is estimated to complete in March 2018. We expect sales momentum to improve post-construction completion as buyers typically are more receptive to finished products where they can see and feel the product.

### Outlook

Revenue for FY18/19 will continue to be supported by the estimated c.\$210mn development profits from High Park (GDV S\$650mn), Grandeur Park (GDV S\$744mn) and Willow Apartments (GDV S\$48mn) which will be progressively recognized. The Group's hospitality assets in Singapore and Maldives should continue to perform better with tapering hotel supply in both countries and improving tourist arrivals. Further RNAV boost could come from a favourable exit from [Tower Melbourne](#).

19 February 2017

## Buy (Maintained)

LAST DONE PRICE	SGD 0.96
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 1.21
<b>TOTAL RETURN</b>	<b>30.9%</b>

### COMPANY DATA

BLOOMBERG CODE	CHIP SP
O/S SHARES (MN) :	621
MARKET CAP (USD mn / SGD mn) :	452 / 593
52 - WK HI/LO (SGD) :	1.07 / 0.68
3M Average Daily T/O (mn) :	1.82

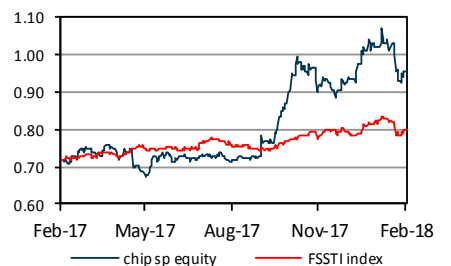
### MAJOR SHAREHOLDERS (%)

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	(6.4)	6.1	43.2
STI RETURN	(2.5)	2.6	15.1

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Mar \$m	FY16	FY17	FY18E	FY19E
Gross Rev.	748	874	915	730
Gross Profit	146	166	174	139
Net Income	36	47	52	46
ROE (%)	4.6	6.8	6	4.1
P/B (x)	0.59	0.78	0.76	0.81
DPS (Cents)	4.0	4.0	4.0	4.0
Dividend Yield (%)	5.6	4.2	4.2	4.2

Source: Company Data, PSR est.

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### Maintain Buy with unchanged TP of S\$1.21

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. The Woodleigh site is due for launch in 3Q18, with an estimated GDV of S\$720mn (60% stake) and share price catalyst could come from healthy take-up rates at the launch.

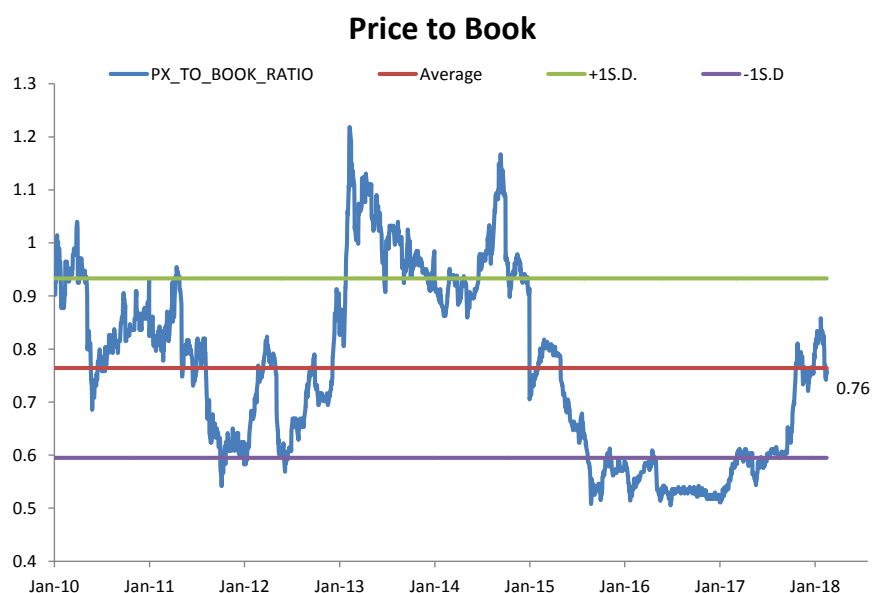
Figure 1. RNAV Table

RNAV Table	Valuation (S\$m)
Development Properties	1689
+	
Development surplus (Singapore)	332
Development surplus (Australia)	8
+	
Investment Properties	345
-	
FY18E Net Cash (Debt)	(1305.5)
=	
RNAV*	1,068
Shares outstanding (m)	621
<b>RNAV per share (S\$)</b>	<b>1.72</b>
Discount (%)	40%
<b>Discounted RNAV (excl construction business) (S\$)</b>	<b>1.03</b>
<b>Construction business valuation @5x PE</b>	<b>0.18</b>
<b>SOTP Target price</b>	<b>1.21</b>
Forecast dividend	0.040
Current price (S\$)	0.96
<b>Upside/(downside), (%)</b>	<b>30.4%</b>

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



Source: Bloomberg, PSR

## Financials

### Income Statement

Y/E Dec, SGD'mn	FY15	FY16	FY17	FY18E	FY19E
<b>Revenue</b>	<b>676</b>	<b>748</b>	<b>860</b>	<b>911</b>	<b>726</b>
Cost of Sales	-515	-602	-707	-738	-588
<b>Other Items of Income</b>					
Int & Div Income	5	13	22	13	16
Other Income	5	13	22	13	16
<b>Other Items of Expense</b>					
Marketing & Distribution	-28	-7	-15	-9	-7
Administrative Expenses	-57	-60	-69	-77	-62
Finance Costs	-16	-20	-25	-25	-25
<b>Share of Results of Associates</b>	<b>1</b>	<b>-1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Profit Before Tax	68	76	70	78	65
<b>Income Tax Expense</b>	<b>-10</b>	<b>-24</b>	<b>-14</b>	<b>-12</b>	<b>-10</b>
<b>Net Income</b>	<b>63</b>	<b>36</b>	<b>39</b>	<b>48</b>	<b>41</b>

### Cash Flow

Y/E Dec, SGD'mn	FY15	FY16	FY17	FY18E	FY19E
Profit Before Tax	68	76	70	78	65
Depreciation & Amortization	6	7	11	7	7
Other Non-cash items	-10	64	16	0	0
<b>OCF Before Changes in WC</b>	<b>64</b>	<b>147</b>	<b>97</b>	<b>85</b>	<b>72</b>
Trade & Other Receivables	-27	170	-8	-123	76
Trade & Other Payables	16	-13	-28	89	-30
Inventories	288	-506	-562	149	88
Net interest expense	-14	-16	-42	-23	-21
Income Taxes Paid	-16	-20	-46	-25	-25
Other Items Combined	-74	-161	1	-83	-80
<b>Cashflow from Operations</b>	<b>300</b>	<b>-251</b>	<b>-492</b>	<b>154</b>	<b>151</b>
PPE & Investment Properties	-21	-4	-46	-14	-14
Other Items Combined	3	7	-29	0	0
<b>Cashflow from Investing</b>	<b>-18</b>	<b>3</b>	<b>-74</b>	<b>-14</b>	<b>-14</b>
Loans & Borrowings	-82	312	364	0	0
Dividends Paid	-37	-25	-25	-25	-25
Other Items Combined	-5	0	3	0	0
<b>Cashflow from Financing</b>	<b>-124</b>	<b>287</b>	<b>342</b>	<b>-25</b>	<b>-25</b>
Increase in Cash & Equivalents	157	39	-224	116	112
Cash & Equivalents (Beginning)	285	442	482	258	373
<b>Cash &amp; Equivalents (Ending)</b>	<b>442</b>	<b>482</b>	<b>258</b>	<b>374</b>	<b>485</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

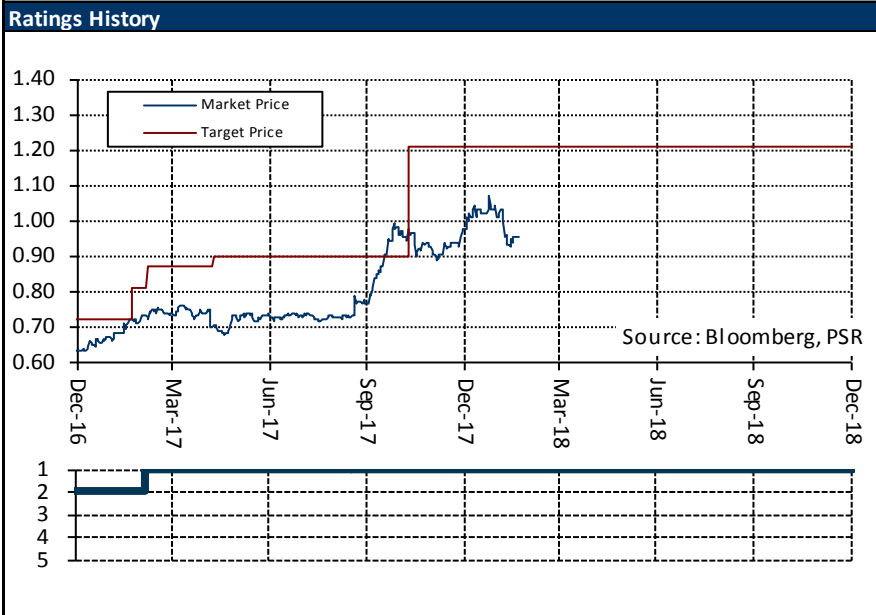
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD'mn	FY15	FY16	FY17	FY18E	FY19E
Property, Plant & Equipment	225	220	324	230	237
Investment Properties	287	296	301	311	321
Other Non-current Assets	23	12	47	41	34
<b>Non-Current Assets</b>	<b>536</b>	<b>528</b>	<b>672</b>	<b>581</b>	<b>592</b>
Development Properties	625	1,128	1,689	1,540	1,452
Completed pptides held-for-sale	39	0	1	1	1
Trade & Other Receivables	249	81	90	213	137
Cash & Short-Term Deposits	442	482	258	373	485
Other Current Assets	15	14	18	18	18
<b>Current Assets</b>	<b>1,371</b>	<b>1,704</b>	<b>2,055</b>	<b>2,146</b>	<b>2,094</b>
<b>Total Assets</b>	<b>1,907</b>	<b>2,232</b>	<b>2,728</b>	<b>2,727</b>	<b>2,686</b>
Loans & Borrowings	120	234	9	155	123
Trade & Other Payables	117	86	58	148	118
Other Liabilities	<b>80</b>	<b>82</b>	<b>95</b>	<b>106</b>	<b>113</b>
<b>Current Liabilities</b>	<b>317</b>	<b>402</b>	<b>162</b>	<b>408</b>	<b>354</b>
Loans & Borrowings	738	937	1,757	1,524	1,524
Deferred Tax Liabilities	16	10	10	10	10
<b>Non-Current Liabilities</b>	<b>754</b>	<b>947</b>	<b>1,767</b>	<b>1,534</b>	<b>1,534</b>
<b>Total Liabilities</b>	<b>1,164</b>	<b>1,456</b>	<b>1,919</b>	<b>1,942</b>	<b>1,888</b>
Non-Controlling Interests	-5	11	28	46	61
<b>Shareholder Equity</b>	<b>743</b>	<b>777</b>	<b>809</b>	<b>785</b>	<b>797</b>

### Valuations and Key Ratios

Y/E Dec	FY15	FY16	FY17	FY18E	FY19E
<b>Valuations</b>					
P/B (X)	0.82	0.80	0.78	0.76	0.81
Dividend Yield (%)	5.7%	5.6%	4.2%	4.2%	4.2%
<b>Growth</b>					
Revenue	-39%	11%	15%	6%	-20%
Net Income	-78%	-43%	8%	25%	-16%
Shareholder Equity	1%	5%	4%	-3%	2%
<b>Margins</b>					
Gross Profit Margin	30%	24%	20%	21%	21%
Net Profit Margin	24%	9%	5%	4%	5%
<b>Key Ratios</b>					
ROE(%)	8.5%	4.6%	4.8%	6.2%	5.1%
ROA(%)	3.3%	1.6%	1.4%	1.8%	1.5%
Gearing (X)	45.0%	52.5%	64.7%	61.6%	61.3%



### 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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