

Chip Eng Seng Corp

BUY

Construction

1HFY04 Results

Date – 5 Aug 04

STI Index – 1,903.85

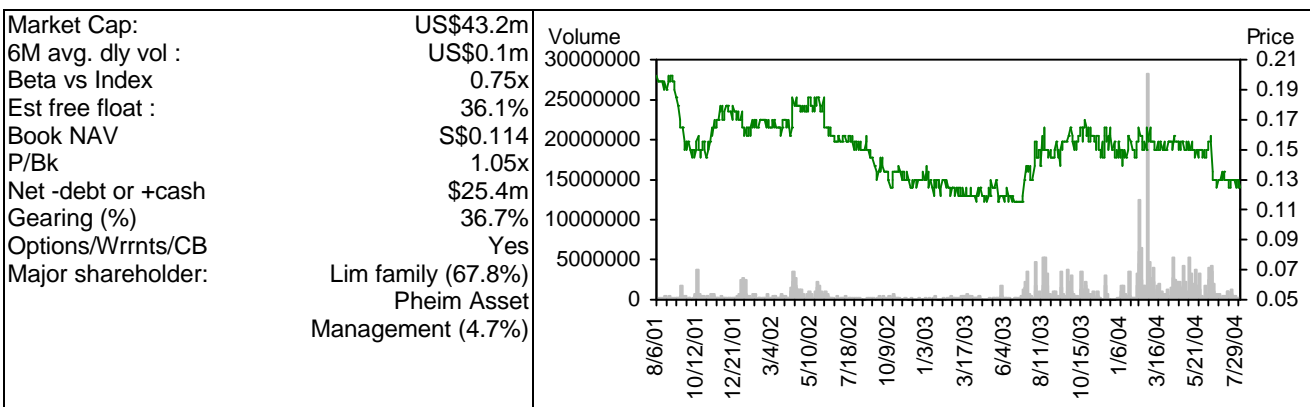
Price S\$0.12

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- ◆ **Chip Eng Seng reported a 4.5% hoh growth in net profit despite a 15.6% drop in revenue to \$74.7m.** The results were largely achieved through higher residential development contributions.
- ◆ **Residential development contributions of \$2.1m came mainly from the fully sold One Fort condominium at an average \$690psf.** In addition, associate contributions were higher to \$2.8m with progressive billings from the 30% owned Grandeur 8 project in Ang Mo Kio. The 579 unit project is almost fully sold at an average \$480psf.
- ◆ **Although construction profit was lower when compared to a year ago, it was higher on a hoh basis to \$3.3m.** Weak market conditions as well as a competitive operating environment in construction sector continued to erode profitability.
- ◆ **Outlook remains positive as progressive billings from One Fort and Grandeur 8 will continue to drive earnings growth over the next 2 years.** The recent launch of Riviera Residence and the scheduled offering of Shanghai Rd site in Sep/Oct will provide further earnings visibility. With a current attributable landbank of 206000sf of GFA, the group's earnings stream should remain strong over the next 2 years. In addition, with \$177m worth of new construction orders secured in 1H04, this division should contribute to bottomline.
- ◆ **Maintain BUY** as the stock is currently trading at an inexpensive 7.9x FY04 PE multiple.

Year to 31st Dec	Sales (\$ m)	Pre-tax Profit (\$m)	Net Profit (\$ m)	EPS (cts)	EPS Growth (%)	PER (X)	P/CF (X)	Div Yield (%)	Net Margin (%)	ROE (%)	ROA (%)
2002	176.0	6.5	4.0	0.8	113.2	14.9	181.2	6.3	2.3	7.2	2.3
2003	159.8	11.3	8.5	1.6	34.0	7.3	8.9	16.7	5.3	13.9	5.1
2004F	148.7	12.2	9.3	1.5	43.0	7.9	10.1	16.7	6.2	13.4	4.6
2005F	175.0	14.2	10.8	1.8	47.0	6.8	8.6	16.7	6.2	14.9	4.9
2006F	216.4	18.7	14.3	2.3	58.0	5.1	6.6	16.7	6.6	18.0	6.0



Earnings Breakdown

YE Dec (S\$ m)	1H04	2H03	% chg	1H04	1H03
Revenue	74.7	88.5	-15.6	46.8	71.3
PBT	5.8	5.8	0.0	5.8	5.6
Taxation	-1.2	-1.4	-14.3	-1.2	-1.4
MI	-0.01	-0.01	0.0	-0.01	-0.09
Net profit	4.6	4.4	+4.5	4.6	4.1

Source: Company data

Balance Sheet

YE Dec (S\$ m)	2002	2003	2004E	2005E	2006E
Total assets	169.4	168.3	201.4	221.6	238.2
Current assets	134.0	132.8	164.0	181.5	194.8
Cash & ST investment	13.2	3.2	19.0	15.0	18.0
Development properties	49.9	59.7	74.3	80.5	93.3
Accounts receivable	35.4	33.0	37.3	43.0	48.5
Others	35.5	36.8	33.4	43.0	35.0
Other assets	35.4	35.5	37.4	40.1	43.4
LT investments	9.6	10.8	12.7	15.0	17.8
Investment properties	24.5	24.0	24.0	24.4	24.9
Others	1.3	0.7	0.7	0.7	0.7
Total liabilities	114.7	107.2	132.1	149.0	158.7
Current liabilities	90.0	82.2	94.4	113.6	120.2
Accounts payable	79.7	71.7	83.5	95.3	95.9
ST borrowings	1.3	5.6	7.0	15.0	20.0
Others	9.0	5.0	3.9	3.3	4.3
Long-term liabilities	24.7	25.0	37.7	35.4	38.5
Long-term debts	24.7	24.7	37.4	35.0	38.0
Others	0.0	0.3	0.3	0.4	0.5
Shareholder's equity	54.7	61.1	69.3	72.7	79.5
Paid-in capital	24.5	24.6	30.3	30.3	30.3
Reserve	30.1	36.5	38.9	42.4	49.2
Net tangible asset	54.7	61.1	69.3	72.7	79.5

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S\$ m)	2002	2003	2004E	2005E	2006E
Growth (% YoY)					
Sales	25.4	-9.2	-6.9	17.6	23.7
OP	39.4	113.3	-0.7	19.4	32.3
EBITDA	48.8	91.4	-2.7	17.8	29.9
NP	116.7	114.5	8.9	17.1	32.3
EPS	113.2	104.3	-8.0	17.1	32.3
Profitability (%)					
Gross margin	5.0	8.7	9.7	9.6	9.7
Operating margin	2.5	5.9	6.3	6.4	6.9
EBITDA margin	3.2	6.7	7.0	7.0	7.3
Net Profit margin	2.3	5.3	6.2	6.2	6.6
ROA	2.3	5.1	4.6	4.9	6.0
ROE	7.2	13.9	13.4	14.9	18.0
Stability					
Gross debt/equity (%)	47.6	49.5	64.1	68.7	72.9
Net debt/equity (%)	23.5	44.3	36.7	48.1	50.3
Int. coverage (X)	51.2	43.2	108.4	129.5	171.3
Int. & ST debt coverage (X)	3.1	1.6	1.3	0.7	0.7
Cash flow int. coverage (X)	-310.6	-58.8	12.2	18.0	-2.8
Cash flow int. & ST debt (X)	-19.1	-2.2	0.5	0.4	-0.1
Current ratio (X)	1.5	1.6	1.7	1.6	1.6
Quick ratio (X)	1.3	1.0	1.2	1.1	1.0
Net debt (S\$m)	12.9	27.1	25.4	35.0	40.0
Per share data (S\$)					
EPS – fully diluted	0.8	1.6	1.5	1.8	2.3
CFPS	0.1	1.3	1.2	1.4	1.8
BVPS	11.1	11.8	11.3	11.9	13.0
SPS	35.7	30.9	24.3	28.6	35.3
EBITDA/share	1.1	2.1	1.7	2.0	2.6
DPS	0.8	2.0	2.0	2.0	2.0

Source: Company data, Kim Eng estimates

Profit and loss

YE Dec (S\$ m)	2002	2003	2004E	2005E	2006E
Sales	176.0	159.8	148.7	175.0	216.4
Cost of goods sold	167.3	145.8	134.3	158.2	195.5
Gross Profit	8.7	13.9	14.4	16.8	20.9
Operating expenses	4.3	4.4	5.0	5.5	6.0
Operating Profit	4.5	9.5	9.4	11.3	14.9
Net interest	-0.1	-0.2	0.0	-0.1	-0.2
Interest income	0.0	0.0	0.3	0.2	0.3
Interest expense	0.1	0.2	0.3	0.4	0.4
Net investment income/(loss)	0.3	0.7	0.0	0.0	0.0
Net other non-op. JV+Assoc.	4.8	2.7	2.8	3.1	4.0
Net exceptionals	-3.0	-1.4	0.0	0.0	0.0
Pretax income	6.5	11.3	12.2	14.2	18.7
Income taxes	2.5	2.7	2.8	3.3	4.3
Minority Interest	0.0	0.1	0.1	0.1	0.1
Net profit	4.0	8.5	9.3	10.8	14.3
EBITDA	5.6	10.7	10.4	12.2	15.9
EPS(Scts) – fully diluted	0.8	1.6	1.5	1.8	2.3

Source: Company data, Kim Eng estimates

Cashflow

YE Dec (S\$ m)	2002	2003	2004E	2005E	2006E
Operating cash flow	-27.0	-12.9	3.9	6.5	-1.2
Net Profit	4.0	8.5	9.3	10.8	14.3
Depreciation & amortisation	1.1	1.2	1.0	1.0	1.0
Change in working capital	-49.0	-16.2	-0.7	1.0	-8.3
Others	16.8	-6.4	-5.6	-6.3	-8.2
Investment cash flow	-2.3	-0.2	-0.4	-0.4	-0.4
Net capex	-1.2	0.5	0.1	0.1	0.1
Change in LT investment	-1.1	-0.6	-0.5	-0.5	-0.5
Change in other assets	0.0	0.0	0.0	0.0	0.0
Cash flow after invt.	-29.3	-13.1	3.5	6.1	-1.6
Financing cash flow	23.8	1.0	13.4	-2.3	0.1
Change in share capital	0.1	0.2	5.7	0.0	0.0
Net change in debt	26.0	3.8	14.2	5.6	8.0
Change in other LT liab.	-2.3	-3.1	-6.5	-7.9	-7.9
Net cash flow	-5.5	-12.1	16.9	3.8	-1.5

Source: Company data, Kim Eng estimates

Valuation

YE Dec (S\$ m)	2002	2003	2004E	2005E	2006E
Enterprise Valuations					
NOPLAT	4.3	11.6	12.4	14.7	19.3
Inv Cap	244.9	243.2	255.3	287.6	309.1
ROIC (%)	7.8	6.5	6.7	7.9	9.2
WACC (%)	5.9	5.7	5.6	5.6	5.4
Economic Profit	4.7	132	77	75	118
Free CF	5.5	-691	106	297	275
EV	71.9	1,287.9	1,459.1	1,302.6	1,171.9
EV/EBITDA (X)	24.6	2.7	2.8	2.2	1.8
EVA Spread	1.9	0.9	1.0	2.3	3.7

Source: Company data, Kim Eng estimates

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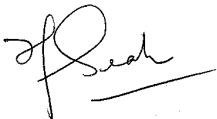
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