

Chip Eng Seng Corp

BUY

Construction

Company Update

Date – 21 Mar 2005

ST Index – 2,174.49

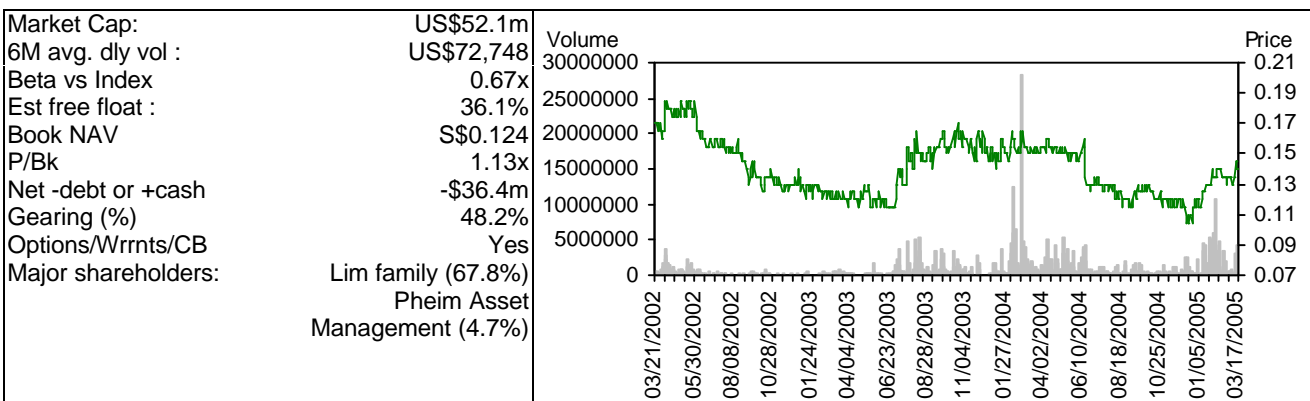
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- ◆ **Wins major contract, construction orderbook more than doubled to a sizeable \$450m.** CES has won a \$279m construction contract from HDB, its biggest single award to date. The group submitted the lowest alternative bid to build the Pinnacles @ Duxton, amid strong competition from a total of 12 bidders.
- ◆ **FY05 and FY06 earnings revised by 9% and 8% to \$12m and \$15.5m respectively** to factor in the new contributions. Construction work is scheduled to start in April 2005 and is expected to complete in 2009. The 1848-unit 50-storey residential project is the tallest public housing project to date, featuring skybridges and sky gardens as well as commercial and other conveniences such as shops, food court, education and childcare centres.
- ◆ **Robust residential contributions from three ongoing projects.** An estimated 50% of the units at Riviera Residences and Shanghai One have been sold to date. Progressive billings from these projects as well as from the 30% owned Grandeur 8 at Ang Mo Kio are expected to boost bottomline over the next 2 years.
- ◆ **Anticipated liberalising of the HDB housing market opens new opportunity.** HDB's announcement to allow private developers to participate in its housing projects on a design, build and sell basis is positive for developers cum contractors such as Chip Eng Seng. In addition to enabling them to leverage on their full spectrum of expertise in this area, if fully liberalised, the new market, estimated at some 10000-15000 units pa, would open a new source of income.
- ◆ **Maintain BUY.** Share price is currently trading at an inexpensive 7.1x FY05 PE multiple. Moreover, with strong cash inflow from completion of Grandeur 8 by end 2005, dividend yield is expected to remain high.

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 (%)
2003	159.8	11.3	8.5	1.6	238.1	8.5	10.4	14.3	5.3	13.9	5.1
2004	141.7	12.7	10.4	1.7	4.5	8.2	13.9	10.7	7.4	13.8	5.1
2005F	161.7	14.3	12.0	2.0	14.8	7.1	9.8	10.7	7.4	15.4	5.4
2006F	169.9	18.5	15.5	2.6	29.6	5.5	8.3	10.7	9.1	18.6	6.4
2007F	141.1	22.0	18.1	3.0	16.6	4.7	12.2	10.7	12.8	19.2	6.8



Earnings Breakdown

YE Dec (S\$ m)	2H04	1H04	% chg	FY04	FY03
Revenue	67.1	74.7	-10.2	141.8	159.8
PBT	7.0	5.8	+20.7	12.8	11.3
Taxation	-1.1	-1.2	-8.3	-2.3	-2.7
MI	0.01	-0.01	0.0	0.0	0.0
Net profit	5.8	4.6	+26.1	10.4	8.5

Source: Company data

Balance Sheet

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Total assets	168.3	203.3	222.7	241.9	265.3
Current assets	132.8	165.7	182.1	197.7	216.9
Cash & ST investment	3.2	13.4	14.6	18.0	21.0
Development properties	59.7	84.8	87.4	92.0	100.6
Accounts receivable	33.0	35.0	40.7	43.2	48.1
Others	36.8	32.5	39.4	44.5	47.2
Other assets	35.5	37.5	40.6	44.2	48.4
LT investments	10.8	14.1	16.7	19.8	23.5
Investment properties	24.0	22.8	23.3	23.7	24.2
Others	0.7	0.7	0.7	0.7	0.7
Total liabilities	107.2	127.7	144.9	158.4	171.1
Current liabilities	82.2	116.0	129.5	139.9	149.5
Accounts payable	71.7	74.5	86.5	94.0	100.0
ST borrowings	5.6	38.3	40.0	42.0	45.0
Others	5.0	3.1	3.0	3.9	4.5
Long-term liabilities	25.0	11.7	15.4	18.5	21.6
Long-term debts	24.7	11.5	15.0	18.0	21.0
Others	0.3	0.2	0.4	0.5	0.6
Shareholder's equity	61.1	75.6	77.8	83.5	94.1
Paid-in capital	24.6	30.3	30.3	30.3	30.3
Reserve	36.5	45.2	47.4	53.2	63.8
Net tangible asset	61.1	75.6	77.8	83.5	94.1

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Growth (% YoY)					
Sales	-6.3	-11.3	14.2	5.0	-17.0
OP	391.4	-13.9	28.7	20.3	-18.2
EBITDA	391.4	-16.1	26.4	19.1	-17.0
NP	255.1	22.6	14.8	29.6	16.6
EPS	238.1	4.5	14.8	29.6	16.6
Profitability (%)					
Gross margin	8.7	8.2	9.0	10.1	10.9
Operating margin	5.9	5.8	6.5	7.5	7.3
EBITDA margin	6.7	6.3	7.0	7.9	7.9
Net Profit margin	5.3	7.4	7.4	9.1	12.8
ROA	5.1	5.1	5.4	6.4	6.8
ROE	13.9	13.8	15.4	18.6	19.2
Stability					
Gross debt/equity (%)	0.50	0.66	0.71	0.72	0.70
Net debt/equity (%)	0.44	0.48	0.52	0.50	0.48
Int. coverage (X)	109.2	37.2	121.1	145.7	119.2
Int. & ST debt coverage (X)	1.7	0.2	0.3	0.3	0.2
Cash flow int. coverage (X)	-58.8	-124.6	51.8	53.8	33.5
Cash flow int. & ST debt (X)	-2.2	-0.4	0.2	0.2	0.1
Current ratio (X)	1.6	1.4	1.4	1.4	1.5
Quick ratio (X)	1.3	1.0	0.8	0.9	0.9
Net debt (S\$m)	27.1	36.4	40.4	42.0	45.0
Per share data (S\$)					
EPS – fully diluted	1.6	1.7	2.0	2.6	3.0
CFPS	1.3	1.0	1.4	1.7	1.1
BVPS	11.8	12.5	12.8	13.8	15.5
SPS	30.9	23.3	26.7	28.0	23.2
EBITDA/share	2.1	1.5	1.9	2.2	1.8
DPS	2.0	1.5	1.5	1.5	1.5

Source: Company data, Kim Eng estimates

Profit and loss

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Sales	159.8	141.7	161.7	169.9	141.1
Cost of goods sold	145.8	130.0	147.2	152.7	125.7
Gross Profit	13.9	11.7	14.5	17.2	15.4
Operating expenses	4.4	3.5	4.0	4.5	5.0
Operating Profit	9.5	8.2	10.5	12.7	10.4
Net interest	-0.2	-0.1	-0.1	-0.2	-0.2
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	0.2	0.1	0.1	0.2	0.2
Net investment income/(loss)	0.7	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	2.7	4.7	3.9	6.0	11.8
Net exceptionals	-1.4	0.0	0.0	0.0	0.0
Pretax income	11.3	12.7	14.3	18.5	22.0
Income taxes	2.7	2.3	2.3	3.0	3.9
Minority Interest	0.1	0.0	0.0	0.0	0.0
Net profit	8.5	10.4	12.0	15.5	18.1
EBITDA	10.7	9.0	11.3	13.5	11.2
EPS(Scts)	1.6	1.7	2.0	2.6	3.0

Source: Company data, Kim Eng estimates

Cashflow

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Operating cash flow	-12.9	-16.6	7.6	8.6	5.9
Net Profit	8.5	10.4	12.0	15.5	18.1
Depreciation & amortisation	1.2	0.8	0.8	0.8	0.8
Change in working capital	-16.2	-20.2	1.7	2.1	3.2
Others	-6.4	-7.6	-6.8	-9.8	-16.2
Investment cash flow	-0.2	0.9	-0.4	-0.4	-0.4
Net capex	0.5	-0.2	0.1	0.1	0.1
Change in LT investment	-0.6	1.1	-0.5	-0.5	-0.5
Change in other assets	0.0	0.0	0.0	0.0	0.0
Cash flow after invt.	-13.1	-15.6	7.2	8.2	5.5
Financing cash flow	1.0	23.4	-2.5	-2.7	-1.7
Change in share capital	0.2	13.7	0.0	0.0	0.0
Net change in debt	3.8	19.6	5.2	5.0	6.0
Change in other LT liab.	-3.1	-9.8	-7.6	-7.7	-7.7
Net cash flow	-12.1	7.8	4.7	5.6	3.8

Source: Company data, Kim Eng estimates

Valuation

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Enterprise Valuations					
NOPLAT	11.6	10.5	14.3	17.5	15.6
Inv Cap	243.2	244.4	273.2	311.5	337.8
ROIC (%)	6.5	6.7	7.9	9.2	7.5
WACC (%)	5.8	5.3	5.2	5.5	5.4
Economic Profit	1.8	3.3	7.3	11.3	6.9
Free CF	12.8	-9.3	16.5	20.2	19.4
EV	99.5	121.3	125.4	127.0	130.0
EV/EBITDA (X)	9.9	13.5	10.4	8.8	10.9
EVA Spread	0.7	1.4	2.7	3.6	2.0

Source: Company data, Kim Eng estimates

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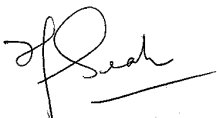
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