

# Chip Eng Seng

**PRICE S\$0.135**
**Buy**
**Key Stock Statistics**

NRA EPS Est. 2005	2.6
P/E on NRA Est. 2005	5.1
NRA EPS Est. 2006	2.8
P/E on NRA Est. 2006	4.8
Dividend/Share	1.5
Dividend yield (%)	11%
Issued shares (m)	606.8
Market capitalisation \$m	81.9
Avg. daily vol (m)	2.209
Book Value/Share	0.12
Shareholders:	
Lim Family	57.9%
Pheim	4.7%

**Per share data**

YE Dec	2002	2003	2004	2005E	2006E
Book Value (S\$)	0.11	0.12	0.12	0.14	0.16
Cash Flow (cts)	1.04	1.99	2.05	2.78	2.95
Earnings (cts)	0.81	1.73	1.83	2.65	2.82
Dividend (cts)	0.75	2.00	1.50	1.50	1.50
Payout Ratio	93%	116%	82%	57%	53%
PER (x)	16.7	7.8	7.4	5.1	4.8
P/CF (x)	13.0	6.8	6.6	4.9	4.6
P/BV (x)	1.21	1.1	1.1	1.0	0.9
Dividend yield %	5.6%	14.8%	11.1%	11.1%	11.1%
ROE (%)	7.2%	14.1%	13.8%	19.0%	18.2%

**P&L analysis (\$m)**

YE Dec	2002	2003	2004	2005E	2006E
Revenue	176.0	159.8	141.8	160.1	156.5
Operating Profit	4.7	11.6	8.1	16.2	11.4
Depreciation	1.1	1.2	0.8	0.8	0.8
Interest Expense	-0.1	-0.2	-0.1	-0.2	-0.2
Pretax Profit	6.5	11.3	12.8	20.1	21.4
Effective tax rate	-38.8%	-24.1%	-18.1%	-20.0%	-20.0%
Net Profit	4.0	8.6	10.4	16.1	17.1

**Margins**

Gross	5.0%	10.5%	8.2%	12.5%	9.8%
Operating	2.6%	7.1%	5.6%	10.0%	7.2%
Pre tax	3.7%	7.1%	9.0%	12.5%	13.6%
Net	2.3%	5.4%	7.4%	10.0%	10.9%

**Wins \$279m contract to build The Pinnacle@Duxton**

- Chip Eng Seng has just announced it had been awarded a \$279m contract to build The Pinnacle @Duxton, which when completed, will be Singapore's tallest public housing project and among the largest construction projects in the country this year. We had expected this as the group's tender for this was amongst the lowest.
- With the win, the group's order book has increased to around \$450m, so this one project accounts for more than 60% of order book. Work on the Pinnacle is expected to start next month and will last 48 months. Also, as the contract was won through a competitive bidding process, we do not expect significant margin recovery yet though the group should be able to improve pricing in its tender for subsequent jobs.
- We will review our forecast only after the interims. While there is room to raise this, much depends on pace at which it sells its development properties. We should have a clearer picture then.
- Maintain our Buy recommendation. The group is at undemanding low single digit PERs, has a gross dividend yield of 11% that can be sustained from its rental income. It is also a recovery play onto the construction sector, with order book now stretching into 2009. We are pegging our price target at S\$0.19 or 7x (30% discount to the 10x fair PE we had put for UEL to reflect CES' illiquidity) its FY05 earnings.

## The Pinnacle @Duxton

The Pinnacle@Duxton is touted to be Singapore's tallest public housing project when completed and is one of the largest construction projects to be awarded for this year. The development comprises 1,848 units ranging between 93 to 108 square metres, in seven 50-storey blocks linked by skybridges at the 26th and 50th levels and boasting "sky gardens". The design was selected from international and local entries for the Duxton Plain International Architectural Design Competition. It has an estimated 280,000 square metres of total floor area.

CES' work scope will include construction works for the seven residential blocks; communal facilities including the car park, basketball court, playgrounds; the skybridges and "sky gardens"; substations; commercial facilities including shops, a food court, education centre, child-care centre and RC centre; as well as site works such as landscaping.

Under a new Build-To-Order System, flat buyers were allowed to pick from a varied combination of balconies, bay windows and planter boxes to suit their individual preferences.

## Earnings Forecasts

YE Dec (S\$m)	2002	2003	2004	2005E	2006E
<b>EBIT</b>	<b>1.8</b>	<b>8.8</b>	<b>8.2</b>	<b>16.3</b>	<b>11.6</b>
Building construction	3.9	3.9	4.9	2.9	3.3
Property development	(1.0)	4.0	2.1	12.6	7.5
Rental	(0.1)	0.7	1.0	0.7	0.7
Others	(0.5)	0.2	0.2	0.2	0.2
Interest expense	(0.1)	(0.2)	(0.1)	(0.2)	(0.2)
Operating profit	1.7	8.6	8.1	16.2	11.4
Associates	4.8	2.7	4.7	3.9	9.9
<b>Pre tax profit</b>	<b>6.5</b>	<b>11.3</b>	<b>12.8</b>	<b>20.1</b>	<b>21.4</b>
Taxation	(2.5)	(2.7)	(2.3)	(4.0)	(4.3)
<b>Net profit</b>	<b>4.0</b>	<b>8.6</b>	<b>10.4</b>	<b>16.1</b>	<b>17.1</b>
Wtd no of shares	490.2	490.9	545.9	606.8	606.8
EPS	0.8	1.8	1.9	2.6	2.8
DPS-regular	0.25	0.50	0.75	0.75	0.75

# Chip Eng Seng

16/03/2005

## Balance Sheet & Other Fin. Data(\$m)

YE Dec	2001	2002	2003	2004
Plant and equipment	3.0	3.1	1.7	1.3
Investment property	26.7	24.5	24.0	22.8
Long term assets	32.4	35.4	35.5	37.5
Current assets	92.1	134.0	132.8	165.7
Current liabilities	71.5	90.0	82.2	116.0
Long term liabilities	0.0	24.7	24.9	11.6
Total net assets	53.0	54.7	61.2	75.7
Shareholders funds	53.0	54.7	61.1	75.6
Net debt	Net cash	12.9	27.1	63.3
Gearing	Net cash	23.5%	44.3%	83.7%

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