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Chip Eng Seng Corporation Ltd –

1Q08 results largely in line with expectations

13 May 2008

Recommendation	**BUY**
Bloomberg Code	CHIP SP
Share Price	S$0.47
Target Price	S$0.67
Upside Potential	43%

Report Type

Results update

Company website

www.chipengseng.com.sg

Stock data

Sector :	Property & Construction
Share Cap :	667.5m shares
Market Cap:	S$447.2m
Major Shareholders:	
Lim family	32.9%
Citadel Holdings	25.0%
Free float:	34.9%

Analyst

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MICA (P) 213/09/2007

Review of 1Q08 results

Property segment revenue, in line with expectations, decreased 51.2% to S$7.1m in 1Q08, mainly due to zero revenue contribution from ShanghaiOne development project which was fully recognised in 2007.

We maintain our full year forecast of S$80.3m due to the following reasons:

1. Ventuno Balmoral project, expected to be completed by 4Q08, will contribute approximately S$50.6m to the Group's top line where the remaining 65% of the development project's revenue will be recognised.
2. Elias Road project, a mass market project where we expect 50% take-up rate in 2008, is targeted to be launched by the Group in 2H08. This will contribute approximately S$29.7m in 2008, in line with Chip Eng Seng's revenue recognition policy where 20% of the revenue will be recognised upon signing of Sale and Purchase ("S&P") Agreement.

Share of profits from associated companies, in line with expectations, increased 192.5% to S$7.8m in 1Q08 mainly due to increased contribution from projects at The Suites@Central, targeted to be completed by 4Q08, and Grange Infinite. In FY07, the Group recognised 20% upfront upon signing S&P agreement for CityVista Residences, The Parc and Grange Infinite, in line with the Group's revenue recognition policy. We will expect to see top and bottom line contribution from these projects in the later quarters when construction work exceeds the 20% hurdle rate. We have forecasted a cumulative 35% completion for the three projects by end of FY08 as well as full recognition for The Suites@Central, leading to our forecast of S$66.6m for share of profits from associated companies for FY08.

Construction segment revenue came in slightly below our quarterly forecast. We believe this shortfall is mainly due to a fallen crane at The Parc early this year, disrupting the momentum of the construction work. However, we remain optimistic that the Group will still be able to complete the project by 4Q10 for timely delivery. We also witness margins erosion where steel price has surged 40% to S$1,480/tonne since the start of the year, as shown in the chart on the following page.

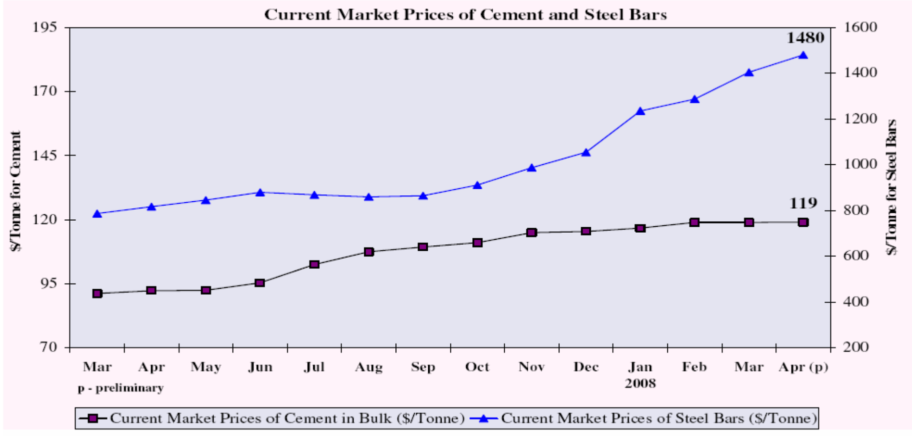
Valuation & Recommendation

Maintain BUY recommendation with price target revised to S$0.67. We have lowered our top and bottom line estimates for construction segment by 5% & 65% respectively to reflect delay in construction work as well as margin erosions due to rising raw material prices.

We continue to value Chip Eng Seng Corporation Ltd using sum-of-the-parts valuation methods, valuing its property developments and construction business at 10x FY08F construction earnings.

Summary Table

Year end : 31 Dec (S$m)	2005	2006	2007	2008F	2009F
Revenue	99.8	165.1	201.2	407.5	453.3
Revenue Growth	-29.6%	65.4%	21.9%	102.5%	11.2%
Gross profit	10.6	12.6	0.6	30.6	14.4
Gross profit margin	10.6%	7.6%	0.3%	7.5%	3.2%
Net Profit	11.3	13.7	50.3	77.7	94.0
Net margin	11.3%	8.9%	25.0%	19.1%	20.7%
Net Profit Growth	8.0%	30.5%	242.1%	54.4%	20.9%
EPS (cts)	1.9	2.4	7.5	11.6	14.1
EPS growth (%)	1.8%	30.5%	210.9%	54.4%	20.9%



Source: Building & Construction Authority

S$ ('000)	1Q08	1Q07	Change (%)
Revenue	59,945	45,213	32.6
Cost of sales	(56,507)	(39,958)	41.4
Gross Profit	3,438	5,255	(34.6)
Selling & Distribution expenses	(134)	(405)	(66.9)
Administrative expenses	(3,406)	(1,667)	104.3
Other income	1,440	1,270	13.4
Profit from operating activities	1,338	4,453	(70.0)
Financial expenses	(823)	(628)	31.1
Share of Profits from Associated Companies	7,816	2,672	192.5
Profit before tax	8,331	6,497	28.2
Tax expense	(240)	(701)	(65.8)
Profit after tax	8,091	5,796	39.6

Valuation Table

	NLA/ GFA (sf)	Stake	Tenure	Valuation (S$psf)	Capital Value (S$'000)	Gain/ (Loss) (S$'000)
Investment Properties						
Market Value of Investment properties					30,706	
Book value of investment properties @31 Dec 2007					(30,706)	-
Development Properties						
NPV of profits						
Ventuno Balmoral	50,012	100%	FH	1,350	16,337	
Elias Road Development	456,162	100%	99yr	650	16,633	
Suite @ Central, Devonshire	223,028	40%	FH	1,300	14,258	
CityVista Residences, Cairnhill	156,644	50%	FH	2,600	69,015	
The Parc, West Coast Rd	899,841	50%	FH	900	87,635	
Grange Infinite, Grange Rd	175,803	25%	FH	3,000	36,388	
Surplus from Singapore residential development properties						**240,265**
Surplus from Vietnam residential development properties						**9,014**
Construction Income						
10x (FY08)						40,063
Total Gain/(Loss)						**289,342**
NAV (as at 31 Dec 2007)						160,272
Total Valuation (S$'000)						**449,614**
Total Shares issued ('000)						667,514
SOTP per share						**0.67**

Source: Westcomb Securities

Projects to be Launched

Location	Stake	Tenure	No of Units	Launch Date	Expected ASP (S$ psf)
Elias Road Development	100%	99yr	400	2H08	650

Source: Westcomb Securities

Projects under Development

Project & Location	Stake	Tenure	No of Units	% Sold	ASP (S$ psf)
Ventuno Balmoral, 21 Balmoral Rd	100%	FH	35	100%	1,350
Suite @ Central, Devonshire Rd	40%	FH	157	100%	1,300
CityVista Residences, Peck Hay	50%	FH	70	54%	2,600
The Parc, West Coast Rd	50%	FH	650	100%	900
Grange Infinite, Grange Towers	25%	FH	68	22%	3,000

Source: Westcomb Securities

Financial Ratio

Year end : 31 Dec	2005	2006	2007F	2008F	2009F
Per Share Data					
Revenue per share (cts)	16.4	27.2	30.1	61.0	67.9
EPS (cts)	1.9	2.4	7.5	11.6	14.1
EPS growth (%)	1.8%	30.5%	210.9%	54.4%	20.9%
Book value/share (cts)	13.1	14.7	24.0	33.9	45.7
Dividend per share (cts)	1.0	1.5	1.8	2.3	2.8
Share Base ('000)	606,788	606,788	667,515	667,515	667,515
Valuation					
P/revenue (x)	2.9	1.7	1.6	0.8	0.7
PER (x)	25.3	19.4	6.2	4.0	3.3
P/B (x)	3.6	3.2	2.0	1.4	1.0
PEG (x)	14.0	0.6	0.0	0.1	0.2
Net gearing (x)	0.35	0.66	0.39	(0.14)	(0.12)
Return on Equity (%)	14.2%	16.5%	31.4%	34.4%	30.8%
Growth Rates (%)					
Revenue	-29.6%	65.4%	21.9%	102.5%	11.2%
Operating Profit	-26.0%	39.2%	-110.4%	-1536.8%	-135.3%
Net Profit	8.0%	30.5%	242.1%	54.4%	20.9%
Margins (%)					
Operating margin	5.9%	5.0%	-0.4%	3.0%	-1.0%
Net margin	11.3%	8.9%	25.0%	19.1%	20.7%

Income Statement

Year end : 31 Dec	2005	2006	2007	2008F	2009F
Revenue	**99,799**	**165,058**	**201,174**	**407,467**	**453,282**
Cost of Sales	(89,207)	(152,439)	(200,528)	(376,850)	(438,849)
Gross Profit	**10,592**	**12,619**	**646**	**30,617**	**14,433**
Admin Expenses	(4,495)	(4,214)	(8,913)	(17,826)	(18,717)
Selling Expenses	(344)	(1,693)	(1,003)	(2,006)	(1,605)
Other Revenue/(Expenses)	145	498	8,413	1,528	1,543
Operating Profit	**5,898**	**7,210**	**(857)**	**12,313**	**(4,346)**
Net interest	451	216	1,637	1,310	1,323
Share from Associate	6,328	8,305	51,852	66,553	96,438
Pre-tax Profit	**12,677**	**15,731**	**52,632**	**80,176**	**93,415**
Income tax	(1,284)	(2,013)	(2,294)	(2,452)	544
Minority interest	(116)	-	7	-	-
Net Profit	**11,277**	**13,718**	**50,345**	**77,724**	**93,959**
EPS (Scts)	1.9	2.4	7.5	11.6	14.1
EPS Growth (%)	1.8%	30.5%	210.9%	54.4%	20.9%

Balance Sheet

Year end : 31 Dec	2005	2006	2007	2008F	2009F
Non-current assets					
Fixed Assets, Net	770	1,242	2,301	2,416	2,537
Associated companies	60,655	70,410	162,843	217,277	258,395
Investment properties	22,806	23,806	30,706	29,171	27,712
Other non-current assets	529	623	8,026	4,423	4,423
Total non-current assets	**84,760**	**96,081**	**203,876**	**253,287**	**293,067**
Current assets					
Cash	2,957	13,132	22,500	75,018	46,218
Trade Receivables	24,111	30,237	50,360	77,736	82,358
Completed properties held for sale	606	19,776	14,200	7,100	7,810
Development properties	45,622	46,462	30,109	36,131	28,905
Other current assets	13,309	10,095	10,824	11,311	11,890
Total current assets	**86,605**	**119,702**	**127,993**	**207,296**	**177,181**
Total assets	**171,365**	**215,783**	**331,869**	**460,583**	**470,248**
Current Liabilities					
Trade Creditors	52,717	46,573	65,646	110,996	136,060
Bank borrowings, secured	18,557	56,083	5,047	3,533	3,003
Other current liabilities	8,661	7,495	19,996	19,267	17,112
Total current liabilities	**79,935**	**110,151**	**90,689**	**133,796**	**156,175**
Non-current liability					
Bank borrowings, unsecured	11,800	16,117	80,117	40,059	8,012
MTN	-	-	-	60,000	-
Other non-current liability	128	188	576	605	635
Total non-current liability	**11,928**	**16,305**	**80,693**	**100,664**	**8,647**
Minority Interest	**222**	**222**	**215**	**117**	**141**
Shareholders funds	**79,280**	**89,105**	**160,272**	**226,006**	**305,285**

Cash Flow Statement

Year end : 31 Dec	2005	2006	2007	2008F	2009F
Cash flow from Operating Activities					
Pretax profit	**12,677**	**16,731**	**52,632**	**80,176**	**93,415**
Adjustments:					
Depreciation & amortization	630	507	573	602	632
Share of profit of associated companies	(6,328)	(8,305)	(51,852)	(66,553)	(96,438)
Interest Expense	145	1,325	3,328	1,937	2,034
Interest Income	(596)	(1,541)	(4,965)	(5,213)	(5,474)
Others	204	3,151	5,373	2,164	2,307
Operating profit before working capital changes	**6,732**	**11,868**	**5,089**	**13,113**	**(3,524)**
Changes in working capital	24,377	(32,258)	20,051	18,615	26,431
Tax Paid	(359)	(2,279)	(1,617)	(3,982)	(2,452)
Net Cash generated from operations	**30,750**	**(22,669)**	**23,523**	**27,746**	**20,455**
Cash flow from Investing Activities					
Interest Received	596	165	4,965	5,213	5,474
Capex	(118)	(1,129)	(1,567)	(717)	(753)
Investment in /returns from associated companies	(15,196)	(2,217)	(40,577)	12,119	55,320
Others	0	325	(4,640)	3,681	0
Net Cash generated from investing	**(14,718)**	**(2,856)**	**(41,819)**	**20,296**	**60,041**
Cash flow from Financing Activities					
Proceeds/(Repayment) of borrowings, net	(19,072)	41,886	12,918	18,428	(92,577)
Dividend Paid	(7,281)	(4,854)	(7,463)	(12,015)	(14,685)
Interest Paid	(145)	(1,325)	(3,328)	(1,937)	(2,034)
Others	3,418	0	25,537	0	0
Net Cash generated from financing activities	**(23,080)**	**35,707**	**27,664**	**4,476**	**(109,296)**
Net change in cash or cash equivalent	**(7,048)**	**10,182**	**9,368**	**52,518**	**(28,800)**
Cash balance at the beginning of the year	10,011	2,957	13,132	22,500	75,018
Foreign exchange & other adjustments	(6)	(8)	0	0	0
Cash balance at the end of the year	**2,957**	**13,132**	**22,500**	**75,018**	**46,218**

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Trading Buy	: + 10% to + 15% range over the next 3 months
Hold	: +/- 15% range over the next 12 months
Trading Sell	: - 10% to - 15% range over the next 3 months
Sell	: >15% downside over the next 12 months

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