

Chip Eng Seng

PRICE S\$0.15

Buy
Key Stock Statistics

NRA EPS Est. 2004	2.2
P/E on NRA Est. 2004	7.0
NRA EPS Est. 2005	2.6
P/E on NRA Est. 2005	5.8
Dividend/Share	2.0
Dividend yield (%)	13.3
Shs. Outstg. (m)	490.0
Warrants outstanding (m)	120.0
Market capitalisation \$m	73.5
Avg. daily vol (m)	1.078
Book Value/Share	0.12
Shareholders:	
Lim Family	67.8%

Per share data

Year:	2001	2002	2003	2004F	2005F
Book Value (\$)	0.11	0.11	0.12	0.11	0.12
Cash Flow (cts)	0.59	1.04	1.96	2.39	2.74
Earnings (cts)	0.31	0.81	1.75	2.21	2.67
Dividend (cts)	0.63	0.75	2.00	1.50	1.50
Payout Ratio	201.9%	92.8%	114.1%	67.9%	56.2%
PER (x)	48.5	18.6	8.6	6.8	5.8
P/CF (x)	25.5	14.5	7.7	6.3	5.5
P/BV (x)	1.39	1.3	1.2	1.4	1.2
Dividend yield %	4.2%	5.0%	13.3%	10.0%	10.0%
ROE (%)	2.9%	7.2%	14.1%	18.4%	21.1%

P&L analysis (\$m)

	2001	2002	2003	2004F	2005F
Revenue	140.3	176.0	159.8	154.1	186.4
Operating Profit	3.3	1.8	8.8	12.3	14.3
Depreciation	1.4	1.1	1.2	1.2	1.2
Interest Expense	-0.1	-0.1	-0.2	-0.3	-0.3
Pretax Profit	5.3	6.5	11.3	15.6	19.7
Effective tax rate	-71.5%	-38.8%	-24.1%	-22.0%	-20.0%
Net Profit	1.5	4.0	8.6	12.2	13.9

Margins

Gross	9.9%	5.0%	10.5%	13.3%	12.3%
Operating	7.9%	2.6%	5.2%	7.6%	7.5%
Pre tax	3.8%	3.7%	7.1%	10.1%	10.6%
Net	1.1%	2.3%	5.4%	7.9%	8.0%

Secures largest development site to date

- Chip Eng Seng's has secured Quelin Gardens in an enbloc exercise for S\$79m. This is probably one of the group's single largest residential development that they are undertaking on their own, in the past having NTUC as a key partner for larger developments.
- This will also be the group's second land acquisition in 3 months having acquired a smaller plot in Shanghai Rd (off River Valley) for about \$14.8m. Both acquisitions should help to sustain group's development earning flow beyond 2005-06.
- On land value of S\$428 psf per plot ratio, we reckoned Quelin Gardens should breakeven at about S\$670 psf. This should leave enough room for profit margin of about 17% on an assumed selling price of about S\$800 psf.
- We have reflected development profit from this project into our FY05 forecast, resulting in a lift in our EPS estimate from 2.26 cts./share to 2.57cts/share. This is premised on the group launch the project sometime next year.
- Meanwhile, the group's joint venture development with NTUC, Riveria Drive along Upper East Coast Rd appears almost ready for launch, judging from the level of developmental work that has been going on there.
- The stock will be going ex-dividend on the 17th of June 2004. Investors will receive a total of 2 cts/share (including 1.5 cts in special dividend), equating to a yield of about 13.3%.
- We are reiterating our Buy rating on the stock. We are not enamored in general with construction and building material companies but Chip Eng Seng has very successfully carved out a new earnings stream by undertaking very niche property development projects. The stock also offers one of the highest dividend yield in the market.

Bags Quelin Gardens for S\$79m

Chip Eng Seng has secured one of their largest residential developments in an enbloc exercise, with an offer price of S\$79m for Quelin Gardens, a freehold site located off Orchard Rd.

The group has undertaken larger developments before such as Grandeur 8 and Bishan Loft but these have mostly been on a joint venture basis with the NTUC group.

For a project of this size, we estimated the development value for Quelin Gardens is in excess of S\$110m, we believe this development is the group's largest.

At S\$79m, we estimate the project will breakeven at about S\$670 psf, based on the accommodation value of S\$428 psf per plot ratio. On selling price of about S\$800 psf, attributable profit is about \$24m or a margin of about 17%.

Quelin Gardens is the group second land purchase in the last 6 months; the group recently announced the acquisition of a smaller plot in Shanghai Rd.

We have added development profit from this project into our forecast for FY05, with the assumption that a launch will materialize by 2005. As such, we are lifting FY05E EPS from 2.21cts to 2.57cts.

Projects	Location	GFA	Land costs	Breakever
		sf	\$psf ppr	S\$psf
Grandeur 8 (30%)	Ang Mo Kio	753,473	244	425
Riveria Drive (40%)	East Coast	175,000	271	463
One Fort (100%)	Fort Rd	98,943	305	508
Shanghai Rd (100%)	River Valley	43,000	344	554
Quelin Gardens (100%)	Devonshire	184,315	428	665

Revised Earnings Estimates

Earnings forecast

June	2001	2002	2003	2004E	2005E
EBIT	3.28	1.80	8.83	12.28	14.62
Building construction	9.3	3.9	3.9	3.5	3.8
Property development	-3.8	-1.0	4.0	7.9	10.0
Rental	-2.6	-0.1	0.7	0.7	0.7
Others	0.4	-0.5	0.2	0.2	0.2
Interest expense	-0.1	-0.1	-0.2	-0.3	-0.3
Operating profit	3.2	1.7	8.6	12.0	14.3
Associates	2.1	4.8	2.7	3.6	5.4
Pre tax profit	5.3	6.5	11.3	15.6	19.7
Taxation	-3.8	-2.5	-2.7	-3.4	-3.9
Net profit	1.5	4.0	8.6	12.2	15.8
Wtd no of shares	490.0	490.2	490.9	550.9	612.5
EPS	0.31	0.81	1.75	2.21	2.57
DPS-regular	0.25	0.25	0.50	0.50	0.50
DPS-special	0.38	0.50	1.50	1.00	1.00
DPS-Total	0.63	0.75	2.00	1.50	1.50

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

June	2000	2001	2002	2003
Plant and equipment	2.9	3.0	3.1	1.7
Investment property	32.0	26.7	24.5	24.0
Long term assets	35.8	32.4	35.4	35.5
Current assets	75.1	92.1	134.0	132.8
Current liabilities	57.3	71.5	90.0	82.2
Long term liabilities	0.5	0.0	24.7	24.9
Total net assets	53.0	53.0	54.7	61.2
Shareholders funds	53.0	53.0	54.7	61.1
Net debt	Net cash	Net cash	12.9	27.1
Gearing	Net cash	Net cash	23.5%	44.3%

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