

Corporate Updates

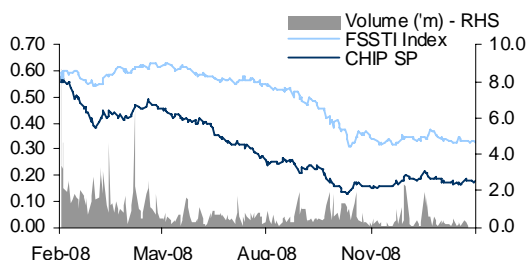
MAINTAIN BUY

Share price	S\$0.17
Target price	S\$0.29
Previous: BUY	S\$0.20
Upside / (Downside)	71.0%

Stock data CHIP SP

Sector	Real Estate
Issued capital (m shs)	667.52
Market Cap (S\$m)	113.48
12 mth price range (S\$)	0.125 / 0.568
Year to date change (%)	(10.53)
Free float (%)	79.82
Avg 30days volume ('000)	237.67
Major shareholders (%):	
Citadel Investment G	25.00
Tiam Seng Lim	12.39
Tiang Chuan Lim	6.62
Lee Meng Chia	0.84

Stock price relativity



Analyst

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Chip Eng Seng Corporation Ltd

- Enjoying fruits of labour

Main catalysts

- **FY08 results in line with expectations** – Chip Eng Seng achieved net profit of S\$43.9m, in line with our S\$44.2m earnings estimates, due mainly to faster than expected contribution from associated companies but partly offset by higher administrative expenses. Share of profits from associated companies decrease marginally to S\$49.2m in FY08 but came in slightly ahead of our forecast of S\$40.6m. The Parc Condominium & CityVista Residences was 38% & 26% completed at FY08, which was ahead of our expected completion of 35% and 20%.
- **Lower construction cost likely to benefit Chip Eng Seng in two ways** – Firstly, easing of the construction cost would likely benefit the Group's property development projects, Elias Road project in particular which is expected to be launched in 2Q~3Q09. As such, we have lowered our construction cost assumptions and breakeven estimates by a conservative S\$10 psf. Secondly, the Group made S\$11.9m of provision for foreseeable losses for its construction segment, mainly arising from the development of its joint venture property development projects. With construction works still ongoing and if easing construction cost trend persist, we may expect some write backs from these provisions in FY09~10F.
- **Dividends to be decided on a later date** – The Group did not declare any final dividends as at results reporting date. The Group has consistently been rewarding shareholders with minimum ordinary dividends of S\$0.0075 per share for the past 4 financial years and sweetening dividend payouts through special dividends during good years. We believe the Group will likely maintain its ordinary dividends payout. We understand from management that dividends, if any, to be declared out of FY08 profits will be announced by end of 1Q09.

Valuation & Recommendation

- **Maintain BUY recommendation with price target raise to S\$0.29.** Based on last transacted price of S\$0.17, Chip Eng Seng is currently trading at 0.5x FY09F P/B. We continue to use sum-of-the-parts valuation methodology to value its property development and construction business. We have revalued all of the Group's unsold development projects at lower than recently transacted price to assume 100% sales in current market and continued to value construction business at 3x FY09F construction earnings. We lowered our discount factor to SOTP valuation to 40%, in line with the discount applied to other property stocks under coverage, raising our price target to S\$0.29 (S\$0.20 previously), a 22% discount to FY09F NAV.

Financial snapshot

FYE: Dec	FY07	FY08	FY09F	FY10F
Revenue (S\$ 'm)	201.2	354.6	296.6	221.8
Gross profit (S\$ 'm)	0.6	14.1	1.9	9.7
Net profit (S\$ 'm)	50.3	43.9	66.8	75.7
EPS (Sg cts)	7.5	6.6	10.0	11.3
EPS growth (%)	210.9	(12.8)	52.2	13.3
P/E (x)	2.3	2.6	1.7	1.5
P/B (x)	0.7	0.6	0.5	0.4
ROE (%)	31.4	23.7	26.9	24.2

Results Commentary

Chip Eng Seng achieved net profit of S\$43.9m, in line with our S\$44.2m earnings estimates, due mainly to faster than expected contribution from associated companies but partly offset by higher administrative expenses. Share of profits from associated companies decrease marginally to S\$49.2m in FY08 but came in slightly ahead of our forecast of S\$40.6m. The Parc Condominium & CityVista Residences was 38% & 26% completed at FY08, which was ahead of our expected completion of 35% and 20%.

FY08 Results

FYE: Dec (S\$'M)	FY08	FY07	Change (%)
Revenue	354.6	201.2	76.3
Cost of sales	(340.5)	(200.5)	69.8
Gross Profit	14.1	0.6	nm
Other income	6.6	13.4	(50.7)
Selling Expenses	(1.2)	(1.0)	22.5
General & Administrative expense	(16.6)	(8.9)	86.3
Financial Cost	(3.6)	(3.3)	7.9
Share of Profits from Assoc Companies	49.2	51.9	(5.1)
Profit before tax	48.5	52.6	(7.8)
Income Tax expenses	(4.6)	(2.3)	102.5
Profit after tax	43.9	50.3	(12.9)
Minority interest	0.0	0.0	471.4
PATMI	43.9	50.3	(12.8)

Source: Chip Eng Seng

Construction segment registered a segmental loss of S\$10.5m

Revenue from construction segment increased 86.3% to S\$301.1m in FY08, mainly due to the revenue recognized from The Pinnacle@Duxton, The Suites@Central, The Parc Condominium, Sembawang N4C15, Grange Infinite and Queenstown RC25 that were awarded in the previous years. However, the Group made S\$11.9m of provision for foreseeable losses for its construction segment, mainly arising from the development of its joint venture property development projects, resulting in the segmental loss of S\$10.5m. The foreseeable losses were provided based on revised budget to take into consideration the cost overrun and increase in construction costs for materials and overheads.

Property development segment

Wholly-owned property developments

Revenue from property development increased 37.3% to S\$52.0m in FY08, largely due to revenue contribution from the Group's 100% owned development project (Ventuno Balmoral) which obtained TOP before year end.

Joint venture property developments

Share of results of associates decreased 5.1% in FY08 to S\$49.2m but came in slightly ahead of our estimates of S\$40.6m. This was mainly due to faster than expected completion of The Parc Condominium & CityVista Residences, which achieved 38% & 26% completion at FY08, ahead of our expected completion of 35% and 20%.

Administrative expenses

Administrative expenses increased 86.3% in FY08 to S\$16.6m. If not for revaluation loss on investment properties, unrealized foreign exchange loss and impairment loss on trade receivables which amounted to a total of S\$4.4m, administrative expense would have been in line with our estimates.

Comfortable financial position

The Group's net debt/equity ratio increased to 0.75 as at FY08 from 0.39 as at FY07, which was mainly attributable to additional bank borrowings taken to finance a wholly-owned property development project, Oasis@Elias and for investment activities.

We understand from management that its 40% joint venture development project, The Suites@Central, is expected to obtain TOP by end of Feb 2009. Based on our estimates, cash level is likely to increase by approximately S\$40~45m to approximately S\$87.9~92.9m. This will be sufficient to repay its S\$60m MTN that is due in 9 April 2009.

Valuation & Recommendation

Lower construction cost likely to benefit Chip Eng Seng in two ways

Firstly, easing of the construction cost would likely benefit Chip Eng Seng's property development projects, Elias Road project in particular which is expected to be launched in 2Q~3Q09. As such, we have lowered our construction cost assumptions and breakeven estimates by a conservative S\$10 psf for Elias Road project.

Secondly, the Group made S\$11.9m of provision for foreseeable losses for its construction segment, mainly arising from the development of its joint venture property development projects. With construction works still ongoing and if easing construction cost trend persist, we may expect some write backs from these provisions in FY09~10F.

Order books breakdown

The Group's outstanding order books for its construction contracts as at FY08 stood at \$698m. According to our estimates, public sector jobs makes up approximately 75% of the total order books while the remaining 25% comprise of construction of condominium projects relating to joint venture projects, namely The Parc Condominium, CityVista Residences and Grange Infinite. We expect the Group's construction segment to turn profitable in FY09, given that a substantial proportion of the construction order books are HDB projects that have more certain margins.

Oasis@Elias targeted for launch in 2Q~3Q09

We understand from management that Oasis@Elias is targeted for launch in 2Q~3Q09. Over the weekend, average selling price ("ASP") of Livia was adjusted to S\$597 psf. We have lowered our ASP for Oasis@Elias to S\$540 psf, a 10% discount off Livia's ASP, expecting a loss of S\$0.5m despite the lower construction cost forecasted.

Dividends, if any, will be announced by end of 1Q09

Chip Eng Seng did not declare any final dividends as at results reporting date. The Group has consistently been rewarding shareholders with minimum ordinary dividends of S\$0.0075 per share for the past 4 financial years and sweetening dividend payouts through special dividends during good years. We believe the Group will likely maintain its ordinary dividends payout subsequent to Suites@Central obtaining TOP, which is expected to be obtained by end of Feb. We understand from management that any dividends, if any, to be declared out of FY08 profits will be announced by end of 1Q09.

FY09F earnings estimates largely unchanged

Our earnings estimate remains largely unchanged, after raising our forecasted operating expenses but partly offset by the increase in expected share of profits from associated companies, bringing our FY09F bottom line forecast to S\$66.8m.

Maintain BUY recommendation with price target raise to \$0.29

Based on last transacted price of S\$0.17, Chip Eng Seng is currently trading at 50% discount to FY09F NAV and 65% discount to RNAV. We continue to value Chip Eng Seng at S\$0.49 per share using sum-of-the-parts valuation method, valuing its property developments and construction business. We have revalued all of Chip Eng Seng's unsold development projects at lower than recently transacted price to assume 100% sales in current market. We continue to value construction business at 3x FY09F construction earnings. We lowered our discount factor to SOTP valuation to 40%, in line with the discount factor applied to other property stocks under coverage, raising our price target of S\$0.29 (from S\$0.20 previous).

Valuation Table

FYE: Dec	NLA/GFA Stake (sf)	Sold	Tenure	Valuations (S\$psf)	Capital Value (S\$'000)	Gain/(Loss) (S\$'000)
Investment Properties					29,806	
Market Value of Investment properties					(29,806)	-
Book value of investment properties as at FY08						
Development Properties						
Net present value of future profits						
Oasis@Elias Road	456,162	100	-	99yr	540	(502)
Suite@Central	223,028	40	100	FH	1,300	2,827
CityVista Residences	156,644	50	54	FH	2,239	44,134
The Parc	899,841	50	94	FH	859	68,032
Grange Infinite	175,803	25	100	FH	2,800	24,550
Surplus from Singapore residential development properties						139,041
Surplus from Vietnam residential development properties						1,975
Construction Income						
3x FY09F earnings						885
Total Gain/(Loss)						141,900
NAV (as at 31 Dec 2008)						185,287
SOTP (S\$'000)						327,187
Total Shares issued ('000)						667,514
RNAV per share						0.49
Discount (40%)						0.29
Source: Westcomb research						

Risks

Share price overhang from two sources

JV with Lehman Brothers Real Estate Partners in development projects

Investors are concern with the Group's joint venture projects with Lehman Brothers Real Estate Partners II, L.P ("LBRE") fund, in relation to the construction and property development projects at The Parc Condominium and CityVista Residences, resulting in an uncertainty overhanging the share. As previously announced by Chip Eng Seng, the management does not expect Lehman Brothers Holdings Inc's ("LBHI") filing of a petition in the United States under Chapter 11 of the U.S. Bankruptcy Code, to affect Chip Eng Seng's development project as LBHI holds approximately 20% stake in LBRE. We also understand that the LBRE have funds ready to invest in more development projects within the region.

Citadel shareholdings

Recalling that Citadel Equity Fund Ltd ("Citadel") acquired its 25% stake in Chip Eng Seng following the completion of the subscription and the acquisition of the sale shares by vendors and the additional shares issued during FY07 at approximately S\$0.50 per share, investors are generally concern with Citadel reducing its direct stake in Chip Eng Seng. We believe the market is factoring in a discount to Chip Eng Seng's share price in fear of Citadel reducing its direct stake in Chip Eng Seng. Given the expected profitability in FY09-10F of the Group, we do not expect Citadel to reduce its stake in Chip Eng Seng in the near term.

Oasis@Elias dependent on Livia's pricing

While we expect the easing of construction cost to lower Oasis@Elias's breakeven cost, we believe the project's profitability is highly dependent on Livia's pricing and take up rate. Any further downwards revision of Livia's ASP will likely affect the launch price of Oasis@Elias in 2Q-3Q09.

Financial Statements

Income Statement, FYE 31 Dec

S\$ 'm	FY07	FY08	FY09F	FY10F
Revenue	201.2	354.6	296.6	221.8
COGS	(200.5)	(340.5)	(294.7)	(212.0)
Gross Profit	0.6	14.1	1.9	9.7
Operating Expenses	(9.9)	(17.8)	(13.3)	(14.0)
Other Income	8.4	1.0	1.0	1.1
Operating Profit	(0.9)	(2.7)	(10.4)	(3.2)
Share of profits from associates	51.9	49.2	79.9	81.6
Net Interest Expenses	1.6	2.0	2.0	2.0
Profit before tax	52.6	48.5	71.5	80.4
Income Tax	(2.3)	(4.6)	(4.7)	(4.7)
Net Profit	50.3	43.9	66.8	75.7
Minority Interest	0.0	0.0	0.0	0.0
PATMI	50.3	43.9	66.8	75.7
EPS (Sg cts)	7.5	6.6	10.0	11.3
DPS (Sg cts)	1.8	0.8	2.0	2.3
Book Value per share (Sg cts)	24.0	27.8	37.2	46.9

Cash Flow, FYE 31 Dec

S\$ 'm	FY07	FY08	FY09F	FY10F
Profit before tax	52.6	48.5	71.5	80.4
Adjustments:	(47.5)	(36.2)	(81.0)	(82.6)
Change in working cap.	20.1	(67.2)	26.4	3.0
Income tax paid	(1.6)	(1.7)	(7.2)	(4.7)
Net Cash from operations	23.5	(56.6)	9.7	(3.9)
CapEx	(1.6)	(1.7)	(1.0)	(1.0)
Others	(43.6)	(5.7)	33.6	235.1
CF from Investing	(45.1)	(7.4)	32.6	234.1
Dividends Paid	(7.5)	(11.5)	(4.0)	(10.7)
Issuance (Repurchase)	25.5	0.0	0.0	0.0
Net Borrowing (Repayment)	12.9	101.0	(58.4)	(30.3)
Others	0.0	0.0	0.0	0.0
CF from Financing	31.0	89.4	(62.4)	(41.0)
Change in Cash	9.4	25.4	(20.1)	189.2
Starting Cash Balance	13.1	22.5	47.9	27.7
Ending Cash Balance	22.5	47.9	27.7	216.9

Balance Sheet, as at 31 Dec

S\$ 'm	FY07	FY08	FY09F	FY10F
Property, Plant & Equipment	2.3	3.0	3.1	3.1
Others	201.6	252.2	300.6	149.1
Non Current Assets	203.9	255.2	303.6	152.2
Property held for sale	14.2	6.9	6.9	6.9
Contracts in progress	10.6	8.9	9.3	9.8
Development properties	30.1	133.1	104.0	104.0
Trade and other debtors	50.6	97.1	48.6	24.4
Cash and cash equivalents	22.5	47.9	27.7	216.9
Total Current Asset	128.0	293.8	196.6	362.0
Trade creditors	65.6	143.4	91.4	69.2
Bank borrowings	5.0	100.5	110.6	94.0
Others	20.0	33.7	32.5	34.0
Total current liabilities	90.7	277.7	234.5	197.2
Bank borrowings	80.1	85.6	17.1	3.4
Others	0.6	0.3	0.3	0.3
Total non current liabilities	80.7	85.9	17.4	3.7
Share Capital & other reserves	160.3	185.3	248.1	313.1
Minority Interest	0.2	0.2	0.2	0.2
Total Shareholders Equity	160.5	185.5	248.3	313.3
Growth/Ratio (%)	FY07	FY08	FY09F	FY10F
Revenue Growth	21.9	76.3	(16.4)	(25.2)
Gross Profit Growth	(94.9)	2,086.1	(86.8)	421.5
Net Profit Growth	242.1	(12.8)	52.2	13.3
EPS Growth	210.9	(12.8)	52.2	13.3
DPS Growth	16.7	(57.1)	166.7	12.5
Gross Margin	0.3	4.0	0.6	4.4
Net Margin	25.0	12.4	22.5	34.1
ROE	31.4	23.7	26.9	24.2
ROA	0.2	0.1	0.1	0.1
Net gearing (x)	0.4	0.7	0.4	Net Cash
Valuation	FY07	FY08	FY09F	FY10F
P/E (x)	2.3	2.6	1.7	1.5
P/B (x)	0.7	0.6	0.5	0.4
Dividend Yield (%)	10.3%	4.4%	11.8%	13.2%

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Buy	: >15% upside over the next 12 months
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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