

Company Report

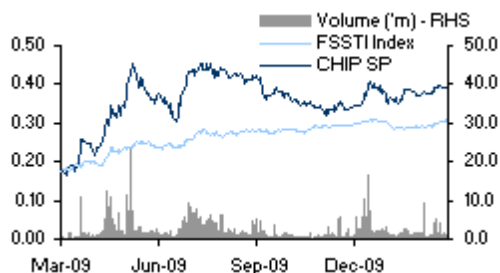
CORPORATE UPDATE

Chip Eng Seng Corporation Ltd - Regional Development Update

Upgrade	BUY
Share price	S\$0.390
Target price	S\$0.53
Previous: Hold	\$0.30
Upside / (Downside)	35.9%

Stock data	CHIP SP
Sector	Real Estate
Issued capital (m shs)	667.52
Market cap (S\$m)	263.67
12 mth price range (S\$)	0.160 / 0.485
Year to date change (%)	14.49
Free float (%)	79.82
Avg 30days volume ('000)	2,431.37
Major shareholders (%):	
Tiam Seng Lim	12.39
Tiang Chuan Lim	6.62
Citadel Investment G	4.90
Lee Meng Chia	0.84
Dimensional Fund Ad	0.27
Tai Meng Hoon	0.16
Chee Wee Goh	0.16

Stock price relativity



Analyst

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Regional Development. CES's wholly-owned subsidiary CES – MCKENZIE (VIC) PTY LTD ("CESM"), was recently awarded the tender for a land parcel within Melbourne's CBD. The purchase price for the site is AUD\$20.2 mil with a land area of about 20,000 square feet. The proposed development is located on MacKenzie Street which is the eastern side of the CBD area of Melbourne. It is close to renowned universities such as RMIT and Melbourne University, amenities as well as being surrounded by culturally rich and diverse precincts such as Chinatown.

CESM has proposed to develop a 32-storey residential tower of about 350 apartments on the site. The Group intends to finance this acquisition via internal funds and bank borrowings. They are sitting on a strong cash position of about S\$76 mil coupled with a low net gearing ratio of 0.15. It is expected that their cash position will strengthen further with the coming of TOP for their joint development projects namely, The Parc Condominium and City Vista Residences this year. This would allow them to pursue other projects within Singapore and the region as well as to tender for construction projects.

Chip Eng Seng's (CES) commendable Full year 2009 (FY09) results.

CES produced a set of commendable results which were slightly above our forecasts for the financial year ended December 2009. Revenue increased by 6.2% to S\$376.4 mil versus S\$354.6mil in FY08. The construction segment saw a significant increase of 10% from S\$301.1 mil to S\$331.3 mil. Property developments saw a decrease of 16.3% from S\$52.0 mil to S\$43.5mil for FY09. Property investments increased 7.3% from S\$1.5mil to S\$1.6 mil.

With cost of sales increasing 8.5% from FY08, Gross profit saw a decline of 49.4% from S\$14.1 mil to S\$7.1 mil. The decline in gross margin was mainly due to a reduction of S\$6.0 mil profit for The Pinnacle@Duxton due to additional cost incurred as well as no significant contribution from Ventuno Balmoral, a wholly-owned project, which TOP in Nov 2008.

Net profit came in at S\$75.3 mil compared to S\$43.9 mil in FY08 representing a 71.5% increase. Mainly due to an increase in the share of associates' results by 73.2% to S\$85.2 mil from S\$49.2 mil in FY08 relating mainly to the progressive recognition of profit from 4 joint venture development projects.

The Group's balance sheet still looks strong, with net debt to equity ratio being only 0.15 vs FY08 where it was 0.75. This significant improvement was mainly due to the commendable FY09 results as well as the repayment of bank borrowings.

Net current assets increased significantly from S\$16.2 mil to S\$107.2 mil as at 31 December 2009. Non current liabilities increased only marginally as extra construction loan was taken up for a development project during the current year.

Considerable dividends declared. Due to the stellar results achieved for the full financial year 2009, the Company has announced an unprecedented 3 Singapore cents per share dividend. Given today's share price of S\$0.390, this represents an attractive dividend yield of 7.7%.

Fig.1: Financial Snapshot

Year End: Dec (SGD k)	2007A	2008A	2009A	2010F	2011F
Revenue	201,174	354,591	376,435	335,546	282,366
Gross profit	646	14,122	7,149	9,527	5,699
PATMI	50,345	43,899	75,271	61,268	54,278
Gross margin	0.3%	4.0%	1.9%	2.8%	2.0%
EBIT margin	2.0%	0.8%	-0.8%	1.4%	-0.4%
Net margin	25.0%	12.4%	20.0%	18.3%	19.2%
ROC		14.2%	20.3%	15.6%	12.4%
ROE		25.4%	34.0%	22.0%	17.0%
P/E	5.17	5.93	3.46	4.25	4.80
P/B	1.62	1.41	1.01	0.87	0.76
Dividend yield	4.5%	1.9%	7.7%	4.5%	4.5%

Source: Company data; Westcomb research

Valuation & Recommendation. Upgrade to BUY; fair value estimate S\$0.53. With the economy seemingly out of the troughs we saw in the last two years, we believe that the construction sector should continue its strong bout especially for government related contracts. It is in our view that CES will be able to further grow its business in Singapore and the region. We are keeping our SOTP valuation methods the same; however, we have removed the 40% discount factor to the fair value price obtained. Thus we arrive at a fair value estimate of S\$0.53, representing a 35.9% upside to the current share price of S\$0.390.

Financial Table

Profit & Loss ((Year End December))	2007A	2008A	2009A	2010F	2011F
Revenue	201,174	354,591	376,435	335,546	282,366
COGS	(200,528)	(340,469)	(369,286)	(326,019)	(276,667)
Gross profit	646	14,122	7,149	9,527	5,699
Other income	13,378	6,601	9,964	12,448	7,713
Marketing & dist. cost	(1,003)	(1,229)	(3,056)	(1,853)	(1,610)
Admin cost	(8,913)	(16,602)	(17,161)	(15,291)	(12,987)
EBIT	4,108	2,892	(3,104)	4,830	(1,185)
Finance cost	(3,328)	(3,592)	(3,768)	(3,359)	(2,826)
Share profit from associate	51,852	49,204	85,209	64,443	62,413
PBT	52,632	48,504	78,337	65,915	58,401
Income tax	(2,294)	(4,645)	(3,012)	(4,593)	(4,069)
PAT	50,338	43,859	75,325	61,322	54,332
Minority Interest	(7)	(40)	54	54	54
PATMI	50,345	43,899	75,271	61,268	54,278

Source: Company data; Westcomb research

Balance Sheet (Year End December)	2007A	2008A	2009A	2010F	2011F
Cash & equivalents	22,500	47,891	76,104	270,024	302,864
Development properties	30,109	133,124	118,644	104,000	104,000
Trade receivables	50,360	96,883	151,938	103,704	87,268
Completed properties held for sale	14,200	6,902	3,494	3,494	3,494
Others	10,824	9,048	1,468	9,260	7,820
Current assets	127,993	293,848	351,648	490,481	505,445
PPE	2,301	3,010	2,705	2,694	2,574
Intangibles	236	104	92	81	69
Long term investments	7,790	1,215	2,337	2,337	2,337
Investment properties	30,706	29,806	30,206	30,206	30,206
Investment in associates	58,086	106,108	170,517	26,159	38,153
Other Receivables	104,757	114,941	34,758	30,983	26,072
Non-current assets	203,876	255,184	240,615	92,460	99,411
Trade payables	53,642	134,183	120,672	104,323	86,612
Short term borrowings	5,047	100,517	24,500	24,500	24,500
Others	32,000	42,951	99,230	61,373	54,617
Current liabilities	90,689	277,651	244,402	190,196	165,730
Long term borrowings	80,117	85,600	89,048	92,635	96,366
Others	576	319	1,131	1,131	1,131
Non-current liabilities	80,693	85,919	90,179	93,766	97,497
Issued capital	79,691	79,691	79,691	79,691	79,691
Treasury shares	(4,826)	(4,826)	(4,826)	(4,826)	(4,826)
Other reserves	3,691	(3,651)	(1,810)	(1,810)	(1,810)
Retained earnings	81,716	114,073	184,398	225,641	268,237
Minority Interest	215	175	229	283	337
Total Equity	160,487	185,462	257,682	298,979	341,629

Source: Company data; Westcomb research

Cashflows (Year End December)	2007A	2008A	2009A	2010F	2011F
PBT	52,632	48,504	78,337	65,915	58,401
Depreciation & amortization	573	905	1,004	849	889
Share of associate's profits	(51,852)	(49,204)	(85,209)	(64,443)	(62,413)
Dividend from associate	(11)	(80)	(4)	0	0
Changes in receivables	(20,124)	(49,031)	11,374	48,234	16,436
Changes in completed properties	5,576	7,298	3,408	0	0
Changes in payables	13,033	79,911	(12,397)	(16,349)	(17,711)
Others	25,286	(95,166)	68,561	(35,597)	(9,385)
Cash flow from operation	25,113	(56,863)	65,074	(1,391)	(13,783)
Capex	(1,567)	(1,654)	(757)	(757)	(757)
Investment/Advances to associates	(53,464)	(11,397)	20,433	191,773	34,526
Dividend income	12,887	5,337	20,803	20,803	20,803
Investment securities	(4,780)	(70)	0	(70)	0
Others	187	664	155	0	0
Cash flow from investment	(46,737)	(7,120)	40,634	211,749	54,572
Share issuance / repurchase	30,363	0	0	0	0
Dividend paid	(7,463)	(11,542)	(4,946)	(20,025)	(11,682)
Borrowings	(47,082)	100,916	(72,569)	3,587	3,731
Others	55,174	0	0	0	0
Cash flow from financing	30,992	89,374	(77,515)	(16,439)	(7,950)
Net changes in cash flow	9,368	25,391	28,193	193,920	32,840

Source: Company data; Westcomb research

**Disclosure
Rating Systems**

Buy : >20% upside over the next 12 months for small cap, >10% for large cap
Hold : +/- 20% range over the next 12 months for small cap, +/- 10% for large cap
Sell : >20% downside over the next 12 months for small cap, +/- 10% for large cap

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