

# Chip Eng Seng

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**PRICE S\$0.15**


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**Buy**
**Key Stock Statistics**

NRA EPS Est. 2004	2.2
P/E on NRA Est. 2004	6.7
NRA EPS Est. 2005	2.4
P/E on NRA Est. 2005	6.4
Dividend/Share	2.0
Dividend yield (%)	13.3
Shs. Outstg. (m)	606.8
Warrants outstanding (m)	0.0
Market capitalisation \$m	91.0
Avg. daily vol (m)	1.238
Book Value/Share	0.12
Shareholders:	
Lim Family	67.8%

**Per share data**

Year:	2001	2002	2003	2004F	2005F
Book Value (S\$)	0.11	0.11	0.12	0.12	0.13
Cash Flow (cts)	0.59	1.04	1.96	2.42	2.52
Earnings (cts)	0.31	0.81	1.75	2.23	2.36
Dividend (cts)	0.63	0.75	2.00	1.50	1.50
Payout Ratio	201.9%	92.8%	114.1%	67.3%	63.6%
PER (x)	48.5	18.6	8.6	6.7	6.4
P/CF (x)	25.5	14.5	7.7	6.2	5.9
P/BV (x)	1.39	1.3	1.2	1.3	1.2
Dividend yield %	4.2%	5.0%	13.3%	10.0%	10.0%
ROE (%)	2.9%	7.2%	14.1%	16.0%	18.1%

**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%

**Ropes in Keppel Land for Quelin Gardens development; Launches Riviera**

- Chip Eng Seng (CES) will partner Keppel Land in the redevelopment of its recently acquired Quelin Gardens. CES will have a 40% stake in the enlarged development, and Keppel Land, 60%. The latter will inject a smaller site into the joint venture for S\$19.2m.
- We believe CES's strategy of partnering larger players for bigger developments helps to mitigate the overall risk for the group. In this case, it is probably strategic as well since Keppel Land will be injecting an adjoining site into the joint venture, hence permitting the development of a larger project.
- The enlarged development will have a land cost of about S\$492 psf per plot ratio (inclusive of development charge) and will breakeven at about \$740 psf. On a selling price of S\$850 psf, the project will generate a development margin of about 13%. CES share of profit is estimated at S\$9.4m.
- Meanwhile, Riviera, a 138-unit freehold development along Upper East Coast Rd has been launched with average prices reported at S\$625 psf. This is marginally higher than our forecast of S\$600 psf. No sales figures were made available.
- 95% of the group's outstanding warrants have been converted recently, raising S\$14m and boosting paid up capital by some 23% to 606m shares.
- 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 yields in the market.

## Partners Keppel Land for Devonshire Rd development

Chip Eng Seng has roped in Keppel Land as a joint venture partner in the redevelopment of Quelin Gardens. This move comes a week after the group announced its acquisition of Quelin Gardens in an enbloc exercise for \$79m.

Both companies will incorporate a joint venture entity, Devonshire Development Pte Ltd, in which Chip Eng Seng will have a 40% equity interest and Keppel Land the remaining 60%.

Apart from Quelin Gardens, Keppel Land will also inject its existing Parc Devon site (13,832 square feet) into the joint venture entity for \$19.2m (S\$496 psf per plot ratio). We note that this is marginally higher than Quelin Gardens S\$491 psf per plot ratio, inclusive of a reported development charge.

Combined with Quelin Gardens 65,821 square feet plot, the combined development will have a total site area of 79,653 square feet, and based on a plot ratio of 2.8x, a total gross floor area of about 223,028 square feet. The entire development is expected to yield about 200 private residential units.

We think Chip Eng Seng's move is part strategic and part prudence. The combined site with a larger development area will have better frontage as well as economies of scale, and by scaling back its participation to 40%, albeit in a bigger development, Chip Eng Seng is also managing its risk. We note that Chip Eng Seng has typically partnered deeper pocket players such as NTUC in some of the group's larger developments eg Grandeur 8 and Bishan Loft

With a combined land cost of S\$98.2m, and a reported development charge of S\$11.6m, we estimate that the project will breakeven at about S\$740 psf, which will leave the developers with a margin of about 13% on a selling price of \$850 psf.

We have also factored in a project launch in 2005, with an initial sales level of 30%. Earnings from this project will now be recognized at the associate level.

## Rivieria has been launched at S\$625 psf

Over the weekend, the group has commenced the sale of its Upper East Coast Rd development, Rivieria. This is a joint venture project with NTUC Income and the development has about 138 units on offer.

The project has been priced at about \$625 psf, which is about 4% higher than our estimates of S\$600 psf. No sale figure has been made available.

## 95% of outstanding warrants converted

A total of 114.4m warrants, representing about 95% of the original was recently converted, raising cash proceeds of S\$14m and increasing the group's paid up capital by some 23% to 606m shares. We have already assumed that the bulk of the warrants will be converted in our EPS forecasts.

## Earnings Estimates

### Earnings forecast

June	2001	2002	2003	2004E	2005E
<b>EBIT</b>	<b>3.28</b>	<b>1.80</b>	<b>8.83</b>	<b>12.28</b>	<b>14.62</b>
Building construction	9.3	3.9	3.9	3.5	3.8
Property development	-3.8	-1.0	4.0	7.9	7.6
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	6.0
<b>Pre tax profit</b>	<b>5.3</b>	<b>6.5</b>	<b>11.3</b>	<b>15.6</b>	<b>17.9</b>
Taxation	-3.8	-2.5	-2.7	-3.4	-3.6
<b>Net profit</b>	<b>1.5</b>	<b>4.0</b>	<b>8.6</b>	<b>12.2</b>	<b>14.3</b>
Wtd no of shares	490.0	490.2	490.9	545.9	606.8
EPS	0.31	0.81	1.75	2.23	2.36
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

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