

Chip Eng Seng

**Singapore
Property**
21 November 2005

◆ Latest purchase will boost residential stock

Acquisition of No 21 Balmoral Rd site will boost new residential stock in hand to 180-190 units. The 26945sf plot was bought for \$19.5m or \$452psf of GFA and can be developed into a 34-unit condominium with built-up area of 43112sf. Breakeven cost is estimated at about \$790psf of saleable area compared to a potential selling price of \$950-1000psf based on prices of new projects in the area.

◆ Ongoing projects still well received

Maiden contributions from ongoing projects should boost bottomline from this year. The 52-unit Shanghai One in River Valley is 70% sold at an average \$810psf while the 40%-owned Riviera Residences enjoys a 70% take up at \$625psf. In Australia, marketing of the North Shore project in Adelaide has just begun at A\$1-1.1m/unit and is generating moderate sales.

◆ Devonshire Rd to be launched next

The group has a 40% share in the Devonshire Rd project with Keppel Land owning the remaining 60%. The 160-unit condominium, to be marketed soon, has a breakeven cost of \$820psf vs selling price of \$1100-1200psf at nearby projects. The group has expressed interest in the government's upcoming land tender under Design, Build and Sell scheme. This would enable them to leverage on their design and construction capabilities and if successful, create a new income source.

◆ Construction orderbook boosted by new contract

Following the win of the major Pinnacles @ Duxton contract, the group has been appointed as contractor for the Devonshire Rd project. This would increase its orderbook to an estimated \$300m and last them over the next 2-3 years.

◆ Maintain buy

Valuation is inexpensive, at 9x FY05 and 7x FY06 earnings, in line with earnings multiples of other small cap stocks. Its dividend yield of 9.4% is likely to be sustained by strong cashflow from recently completed and ongoing developments.

Year End Dec 31	2003	2004	2005F	2006F	2007F
Sales (S\$ m)	159.8	141.7	161.1	192.9	168.7
Pre-tax (S\$ m)	11.3	12.7	13.4	16.0	19.6
Net profit (S\$m)	8.5	10.4	11.1	13.3	16.3
EPS (cts)	1.6	1.7	1.8	2.2	2.7
EPS growth (%)	15.2	4.5	6.5	19.6	22.9
PER (x)	9.7	9.3	8.8	7.3	6.0
EV/EBITDA (x)	9.9	13.5	9.2	6.7	7.6
Yield (%)	12.5	9.4	9.4	9.4	9.4

BUY

Company update

Analyst:

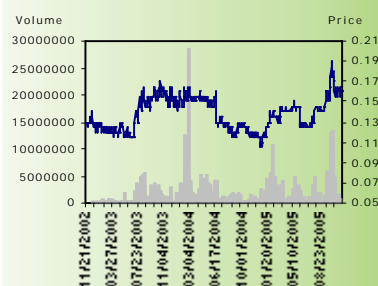
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Price: \$0.16
Target: \$0.18
ST Index: 2,293.2

Historical Chart



Performance	1M	3M	6M
Absolute (%)	0.0	14.3	10.3
Relative (%)	-2.7	13.5	4.2

Stock Information

Ticker code CESE.SI
CHIP SP

Market Cap (USD) 57.1
52-week high (\$) 0.19
52-week low (\$) 0.105
Shares issued (m) 606.8
6m avg. daily vol (US\$m) 0.1
Free float (%) 27.5

Major Shareholders (%)

Lim family (67.8)
Pheim Asset Management (4.7)

Key Indicators

ROE (%) 15.2
Net gearing (%) 18.0
NTA (\$) 0.121
Interest cover (x) 2.1

Earnings Breakdown

YE Dec (S\$ m)	1H05	2H04	% chg	1H04	% chg
Revenue	59.2	67.1	-11.8	74.7	-20.7
PBT	6.2	7.0	-11.4	5.8	+6.9
Taxation	-1.3	-1.1	+18.2	-1.2	+8.3
MI	0.0	0.01	Nm	0.0	0.0
Net profit	4.8	5.8	-17.2	4.6	+4.3

Source: Company data

Profit and loss

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Sales	159.8	141.7	161.1	192.9	168.7
Cost of goods sold	145.8	130.0	147.1	174.7	153.4
Gross Profit	13.9	11.7	14.0	18.2	15.3
Operating expenses	4.4	3.5	4.4	5.0	3.5
Operating Profit	9.5	8.2	9.6	13.2	11.8
Net interest	-0.2	-0.1	0.0	-0.1	-0.1
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	0.2	0.1	0.0	0.1	0.1
Net investment income/(loss)	0.7	0.0	0.0	0.0	0.0
Net other non-op. JV+Assoc.	2.7	4.7	3.9	2.9	7.9
Net exceptionals	-1.4	0.0	0.0	0.0	0.0
Pretax income	11.3	12.7	13.4	16.0	19.6
Income taxes	2.7	2.3	2.3	2.8	3.3
Minority Interest	0.1	0.0	0.0	0.0	0.0
Net profit	8.5	10.4	11.1	13.3	16.3
EBITDA	10.7	9.0	10.2	13.8	12.5
EPS(Scts)	1.6	1.7	1.8	2.2	2.7

Source: Company data, Kim Eng estimates

Balance Sheet

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Total assets	168.3	203.3	166.3	203.2	224.1
Current assets	132.8	165.7	130.7	164.7	182.4
Cash & ST investment	3.2	13.4	4.4	18.0	21.0
Development properties	59.7	84.8	38.7	86.5	94.5
Accounts receivable	33.0	35.0	40.3	43.6	48.4
Others	36.8	32.5	47.2	16.6	18.5
Other assets	35.5	37.5	35.7	38.5	41.7
LT investments	10.8	14.1	12.3	14.6	17.3
Investment properties	24.0	22.8	22.8	23.3	23.7
Others	0.7	0.7	0.5	0.6	0.6
Total liabilities	107.2	127.7	93.2	126.8	138.7
Current liabilities	82.2	116.0	81.4	108.4	117.3
Accounts payable	71.7	74.5	71.6	93.1	98.2
ST borrowings	5.6	38.3	6.3	12.0	15.0
Others	5.0	3.1	3.6	3.3	4.1
Long-term liabilities	25.0	11.7	11.7	18.4	21.4
Long-term debts	24.7	11.5	11.5	18.0	21.0
Others	0.3	0.2	0.2	0.4	0.4
Shareholder's equity	61.1	75.6	73.1	76.6	85.4
Paid-in capital	24.6	30.3	30.3	30.3	30.3
Reserve	36.5	45.2	42.8	46.3	55.1
Net tangible asset	61.1	75.6	73.1	76.4	85.4

Source: Company data, Kim Eng estimates

Cashflow

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Operating cash flow	-12.9	-16.6	-46.5	56.5	6.4
Net Profit	8.5	10.4	11.1	13.3	16.3
Depreciation & amortisation	1.2	0.8	0.6	0.6	0.6
Change in working capital	-16.2	-20.2	-51.5	48.9	1.4
Others	-6.4	-7.6	-6.7	-6.2	-11.9
Investment cash flow	-0.2	0.9	-0.4	-0.4	-0.4
Net capex	0.5	-0.2	0.1	0.1	0.1
Change in LT investment	-0.6	1.1	-0.5	-0.5	-0.5
Change in other assets	0.0	0.0	0.0	0.0	0.0
Cash flow after invt.	-13.1	-15.6	-46.9	56.1	6.0
Financing cash flow	1.0	23.4	-39.6	4.6	-1.6
Change in share capital	0.2	13.7	0.0	0.0	0.0
Net change in debt	3.8	19.6	-32.0	12.2	6.0
Change in other LT liab.	-3.1	-9.8	-7.5	-7.6	-7.6
Net cash flow	-12.1	7.8	-86.5	60.7	4.4

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Growth (% YoY)					
Sales	-6.3	-11.3	13.7	19.8	-12.5
OP	391.4	-13.9	16.7	89.6	98.9
EBITDA	391.4	-16.1	13.5	84.2	95.7
NP	247.4	22.6	6.5	63.7	122.9
EPS	230.8	4.5	6.5	63.7	122.9
Profitability (%)					
Gross margin	8.7	8.2	8.7	12.0	23.4
Operating margin	5.9	5.8	5.9	9.4	21.4
EBITDA margin	6.7	6.3	6.3	9.7	21.7
Net Profit margin	5.3	7.4	6.9	9.4	24.0
ROA	5.1	5.1	6.7	8.9	18.1
ROE	13.9	13.8	15.2	23.7	47.4
Stability					
Gross debt/equity (%)	0.50	0.66	0.24	0.39	0.42
Net debt/equity (%)	0.44	0.48	0.18	0.16	0.18
Int. coverage (X)	109.2	37.2	109.8	208.1	414.1
Int. & ST debt coverage (X)	1.7	0.2	1.5	1.5	2.4
Cash flow int. coverage (X)	-58.8	-124.6	-978.2	766.9	318.4
Cash flow int. & ST debt (X)	-2.2	-0.4	-7.3	5.1	2.0
Current ratio (X)	1.6	1.4	1.6	1.5	1.6
Quick ratio (X)	1.3	1.0	0.8	1.3	0.9
Net debt (S\$m)	27.1	36.4	13.4	12.0	15.0
Per share data (Scts)					
EPS – fully diluted	1.6	1.7	1.8	3.0	6.7
CFPS	1.3	1.0	1.3	1.8	1.5
BVPS	11.8	12.5	12.1	12.6	14.1
SPS	30.9	23.3	26.5	31.8	27.8
EBITDA/share	2.1	1.5	1.7	3.1	6.0
DPS	2.0	1.5	1.5	1.5	1.5

Source: Company data, Kim Eng estimates

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