

Chip Eng Seng Corp

BUY

Construction

1HFY05 Results

Date – 15 August 2005

ST Index – 2,303.20

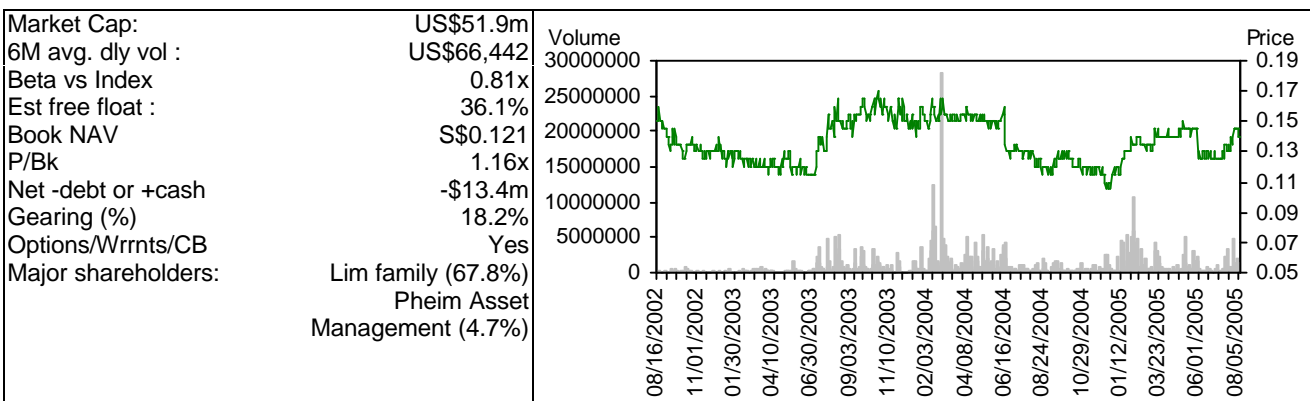
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- ◆ **CES reported a 4.3% yoy increase in 1H05 net profit to \$4.8m** lifted by higher construction profits. However, revenue tumbled 20.7% yoy to \$59.2m on reduced residential turnover following the completion of One Fort project, which received TOP in Jan 2005.
- ◆ **Construction revenue rose 12% to \$52.4m and accounted for 88% of topline**, largely from the project at Toa Payoh RC34. In addition, cost savings and better project management also enhanced returns from construction activities. Residential income came mainly from the 30% held Grandeur 8 as well as final profits from Fort One. Grandeur 8 is 99% sold at an average \$485psf.
- ◆ **Strong earnings growth in FY06, buoyed by healthy locked in residential sales.** FY05 profit estimate is lowered by 12% to \$9.9m (EPS: 1.6cts) as maiden profits from Riviera Residences (60+% sold at \$625psf) and Shanghai One (65% sold at \$810psf) are pushed back to FY06. In addition, profits from planned new launches such as the 40% owned Devonshire Rd site and North Shore project in Australia, which are likely to be marketed towards year end, should lift earnings from next year.
- ◆ **Sizeable construction orderbook of \$450m ensures steady income stream over the next 2-3 years.** The group recently won a major \$279m Pinnacles @ Duxton construction project from HDB. Contributions from this undertaking, which has begun in Apr 2005, should boost earnings from FY06.
- ◆ **Maintain BUY.** Although there does not appear to be any short term catalyst, the stock offers value at an inexpensive 6x FY06 PE multiple. Moreover, with a low gearing of 18% and strong cash inflow from completion of Grandeur 8 by end 2005, dividend yield is expected to remain high.

Year to 31st Dec	Sales (\$ m)	Pre-tax Profit (\$m)	Net Profit (\$ m)	EPS (cts)	EPS Growth (%)	PER (X)	P/CF (X)	Div Yield (%)	Net Margin (%)	ROE (%)	ROA (%)
2003	159.8	11.3	8.5	1.6	230.8	8.5	10.4	14.3	5.3	13.9	5.1
2004	141.7	12.7	10.4	1.7	4.5	8.2	13.9	10.7	7.4	13.8	5.1
2005F	158.6	12.2	9.9	1.6	-4.7	8.6	11.3	10.7	6.3	13.6	6.0
2006F	201.4	16.4	14.0	2.3	40.7	6.1	7.4	10.7	6.9	18.1	6.8
2007F	144.9	21.9	18.4	3.0	31.7	4.6	10.5	10.7	12.7	20.9	8.1



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

Balance Sheet

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Total assets	168.3	203.3	166.3	204.3	227.4
Current assets	132.8	165.7	130.7	165.8	185.7
Cash & ST investment	3.2	13.4	4.4	18.0	21.0
Development properties	59.7	84.8	38.7	87.6	99.0
Accounts receivable	33.0	35.0	40.3	43.6	48.4
Others	36.8	32.5	47.2	16.6	17.3
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	126.9	139.2
Current liabilities	82.2	116.0	81.4	108.6	117.8
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	3.5	4.6
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	77.3	88.2
Paid-in capital	24.6	30.3	30.3	30.3	30.3
Reserve	36.5	45.2	42.8	47.0	57.9
Net tangible asset	61.1	75.6	73.1	77.4	88.2

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Growth (% YoY)					
Sales	-6.3	-11.3	12.0	27.0	-28.1
OP	391.4	-13.9	16.3	42.8	-17.0
EBITDA	391.4	-16.1	13.2	40.3	-16.1
NP	247.4	22.6	-4.7	40.7	31.7
EPS	230.8	4.5	-4.7	40.7	31.7
Profitability (%)					
Gross margin	8.7	8.2	8.5	9.0	11.2
Operating margin	5.9	5.8	6.0	6.8	7.8
EBITDA margin	6.7	6.3	6.4	7.1	8.2
Net Profit margin	5.3	7.4	6.3	6.9	12.7
ROA	5.1	5.1	6.0	6.8	8.1
ROE	13.9	13.8	13.6	18.1	20.9
Stability					
Gross debt/equity (%)	0.50	0.66	0.24	0.39	0.41
Net debt/equity (%)	0.44	0.48	0.18	0.16	0.17
Int. coverage (X)	109.2	37.2	109.5	156.3	129.8
Int. & ST debt coverage (X)	1.7	0.2	1.5	1.1	0.7
Cash flow int. coverage (X)	-58.8	-124.6	-972.3	726.1	89.2
Cash flow int. & ST debt (X)	-2.2	-0.4	-7.3	4.8	0.6
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	1.6	2.3	3.0
CFPS	1.3	1.0	1.2	1.9	1.3
BVPS	11.8	12.5	12.1	12.7	14.5
SPS	30.9	23.3	26.1	33.2	23.9
EBITDA/share	2.1	1.5	1.7	2.3	2.0
DPS	2.0	1.5	1.5	1.5	1.5

Source: Company data, Kim Eng estimates

Profit and loss

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Sales	159.8	141.7	158.6	201.4	144.9
Cost of goods sold	145.8	130.0	145.1	183.3	128.6
Gross Profit	13.9	11.7	13.5	18.1	16.3
Operating expenses	4.4	3.5	4.0	4.5	5.0
Operating Profit	9.5	8.2	9.5	13.6	11.3
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	2.8	2.9	10.7
Net exceptionals	-1.4	0.0	0.0	0.0	0.0
Pretax income	11.3	12.7	12.2	16.4	21.9
Income taxes	2.7	2.3	2.3	2.5	3.5
Minority Interest	0.1	0.0	0.0	0.0	0.0
Net profit	8.5	10.4	9.9	14.0	18.4
EBITDA	10.7	9.0	10.1	14.2	11.9
EPS(Scts)	1.6	1.7	1.6	2.3	3.0

Source: Company data, Kim Eng estimates

Cashflow

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Operating cash flow	-12.9	-16.6	-46.2	58.1	8.6
Net Profit	8.5	10.4	9.9	14.0	18.4
Depreciation & amortisation	1.2	0.8	0.6	0.6	0.6
Change in working capital	-16.2	-20.2	-51.5	50.0	4.8
Others	-6.4	-7.6	-5.3	-6.4	-15.3
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	-46.6	57.7	8.2
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	-86.2	62.4	6.6

Source: Company data, Kim Eng estimates

Valuation

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Enterprise Valuations					
NOPLAT	11.6	10.5	12.1	18.2	17.0
Inv Cap	243.2	244.4	216.4	259.2	323.3
ROIC (%)	6.5	6.7	7.9	9.2	7.5
WACC (%)	5.8	5.3	6.0	6.1	6.0
Economic Profit	1.8	3.3	4.2	7.9	4.8
Free CF	12.8	-9.3	-39.0	68.5	22.2
EV	99.5	121.3	98.3	97.0	100.0
EV/EBITDA (X)	9.9	13.5	9.6	6.3	7.7
EVA Spread	0.7	1.4	1.9	3.0	1.5

Source: Company data, Kim Eng estimates

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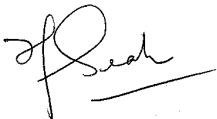
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