

Chip Eng Seng Corp

BUY

Construction

FY04 Results

Date – 4 February 2005

ST Index – 2,108.16

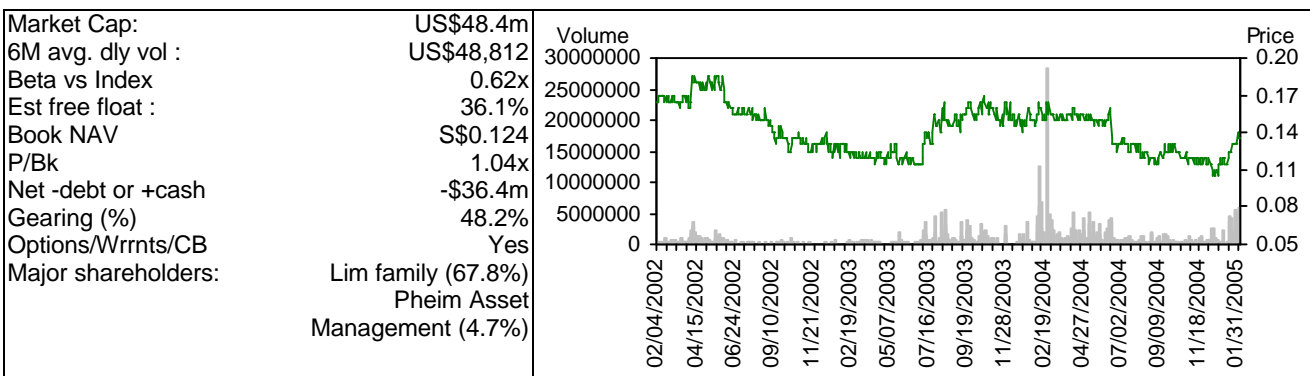
Price S\$0.13

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- ◆ **Results ahead of expectation.** Although revenue dipped 11.3% to \$141.8m, FY04 net profit surged 23% yoy to \$10.4m, thanks to higher residential development and construction profits. The group has proposed a total DPS of 1.5cts, translating to a yield of 11.5%.
- ◆ **Development income of \$6.9m was up 6% yoy** with progressive billings from Grandeur 8 and Fort One, which received TOP in Jan 2005. Grandeur 8, a 30% joint venture with NTUC Choice Homes, is 99% sold at an average price of \$485psf. When completed by 2H05, this development should rake in an attributable profit of \$9-10m.
- ◆ **Although construction revenue declined 19% yoy to \$96.1m due to fewer ongoing contracts, EBIT rose 11% to \$4.3m** with a reduction in overhead expenses and cost saving measures. Future construction profits will be underpinned by its present orderbook of \$190m, of which 60% is expected to be recognised in FY05.
- ◆ **Forward earnings growth driven by residential activities in Singapore and Australia.** Recent launch of Riviera Residences and Shanghai One have met with good take up of 40-50% to date. Contributions from these developments will underpin earnings over the next 2 years. In addition, the group has a 40% stake in a 223,000sf GFA land parcel along Devonshire Rd, slated to be launched this year. Based on an average selling price of at \$1100-1200psf and a breakeven cost of \$800psf, this project should contribute an attractive margin of 20-30% when developed. Furthermore, there are plans to market the 23 unit North Shore project in Australia in mid 2005 at between A\$0.5-\$1.2m/unit.
- ◆ **Maintain BUY.** Share price is currently trading at an inexpensive 7.1x FY05 PE multiple. While the group does not have a formal dividend payout policy, dividend yield is expected to remain high with strong cash inflow from completion of Grandeur 8 by end 2005.

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	238.1	7.9	9.7	15.4	5.3	13.9	5.1
2004	141.7	12.7	10.4	1.7	4.5	7.6	12.9	11.5	7.4	13.8	5.1
2005F	137.2	13.3	11.0	1.8	5.9	7.1	10.3	11.5	8.0	14.4	5.0
2006F	149.4	17.0	14.3	2.4	29.3	5.5	8.8	11.5	9.5	17.5	6.0
2007F	155.7	21.7	18.1	3.0	26.7	4.4	11.3	11.5	11.6	19.7	6.9



Earnings Breakdown

YE Dec (S\$ m)	2H04	1H04	% chg	FY04	FY03
Revenue	67.1	74.7	-10.2	141.8	159.8
PBT	7.0	5.8	+20.7	12.8	11.3
Taxation	-1.1	-1.2	-8.3	-2.3	-2.7
MI	0.01	-0.01	0.0	0.0	0.0
Net profit	5.8	4.6	+26.1	10.4	8.5

Source: Company data

Balance Sheet

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Total assets	168.3	203.3	221.3	239.4	263.1
Current assets	132.8	165.7	180.7	195.2	214.7
Cash & ST investment	3.2	13.4	14.6	18.0	21.0
Development properties	59.7	84.8	87.4	92.0	100.6
Accounts receivable	33.0	35.0	40.7	43.2	48.1
Others	36.8	32.5	38.0	42.0	45.0
Other assets	35.5	37.5	40.6	44.2	48.4
LT investments	10.8	14.1	16.7	19.8	23.5
Investment properties	24.0	22.8	23.3	23.7	24.2
Others	0.7	0.7	0.7	0.7	0.7
Total liabilities	107.2	127.7	144.6	158.1	171.1
Current liabilities	82.2	116.0	129.2	139.6	149.5
Accounts payable	71.7	74.5	86.5	94.0	100.0
ST borrowings	5.6	38.3	40.0	42.0	45.0
Others	5.0	3.1	2.7	3.6	4.5
Long-term liabilities	25.0	11.7	15.4	18.5	21.6
Long-term debts	24.7	11.5	15.0	18.0	21.0
Others	0.3	0.2	0.4	0.5	0.6
Shareholder's equity	61.1	75.6	76.7	81.3	91.9
Paid-in capital	24.6	30.3	30.3	30.3	30.3
Reserve	36.5	45.2	46.4	50.9	61.6
Net tangible asset	61.1	75.6	76.7	81.3	91.9

Source: Company data, Kim Eng estimates

Key ratios

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Growth (% YoY)					
Sales	-6.3	-11.3	-3.1	8.9	4.2
OP	391.4	-13.9	17.4	16.4	-10.0
EBITDA	391.4	-16.1	16.1	15.3	-9.2
NP	255.1	22.6	5.9	29.3	26.7
EPS	238.1	4.5	5.9	29.3	26.7
Profitability (%)					
Gross margin	8.7	8.2	9.9	10.5	9.7
Operating margin	5.9	5.8	7.0	7.5	6.5
EBITDA margin	6.7	6.3	7.6	8.0	7.0
Net Profit margin	5.3	7.4	8.0	9.5	11.6
ROA	5.1	5.1	5.0	6.0	6.9
ROE	13.9	13.8	14.4	17.5	19.7
Stability					
Gross debt/equity (%)	0.50	0.66	0.72	0.74	0.72
Net debt/equity (%)	0.44	0.48	0.53	0.52	0.49
Int. coverage (X)	109.2	37.2	110.5	128.6	115.8
Int. & ST debt coverage (X)	1.7	0.2	0.2	0.3	0.2
Cash flow int. coverage (X)	-58.8	-124.6	47.2	48.0	33.5
Cash flow int. & ST debt (X)	-2.2	-0.4	0.2	0.2	0.1
Current ratio (X)	1.6	1.4	1.4	1.4	1.4
Quick ratio (X)	1.3	1.0	0.8	0.9	0.9
Net debt (S\$m)	27.1	36.4	40.4	42.0	45.0
Per share data (S\$)					
EPS – fully diluted	1.6	1.7	1.8	2.4	3.0
CFPS	1.3	1.0	1.3	1.5	1.1
BVPS	11.8	12.5	12.6	13.4	15.1
SPS	30.9	23.3	22.6	24.6	25.7
EBITDA/share	2.1	1.5	1.7	2.0	1.8
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	137.2	149.4	155.7
Cost of goods sold	145.8	130.0	123.6	133.7	140.6
Gross Profit	13.9	11.7	13.6	15.7	15.1
Operating expenses	4.4	3.5	4.0	4.5	5.0
Operating Profit	9.5	8.2	9.6	11.2	10.1
Net interest	-0.2	-0.1	-0.1	-0.2	-0.2
Interest income	0.0	0.0	0.0	0.0	0.0
Interest expense	0.2	0.1	0.1	0.2	0.2
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	6.0	11.8
Net exceptionals	-1.4	0.0	0.0	0.0	0.0
Pretax income	11.3	12.7	13.3	17.0	21.7
Income taxes	2.7	2.3	2.3	2.7	3.6
Minority Interest	0.1	0.0	0.0	0.0	0.0
Net profit	8.5	10.4	11.0	14.3	18.1
EBITDA	10.7	9.0	10.4	12.0	10.9
EPS(Scts)	1.6	1.7	1.8	2.4	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	6.9	7.7	5.9
Net Profit	8.5	10.4	11.0	14.3	18.1
Depreciation & amortisation	1.2	0.8	0.8	0.8	0.8
Change in working capital	-16.2	-20.2	1.7	2.1	3.2
Others	-6.4	-7.6	-6.6	-9.5	-16.2
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	6.5	7.3	5.5
Financing cash flow	1.0	23.4	-2.5	-2.7	-1.7
Change in share capital	0.2	13.7	0.0	0.0	0.0
Net change in debt	3.8	19.6	5.2	5.0	6.0
Change in other LT liab.	-3.1	-9.8	-7.6	-7.7	-7.7
Net cash flow	-12.1	7.8	4.1	4.6	3.8

Source: Company data, Kim Eng estimates

Valuation

YE Dec (S\$ m)	2003	2004	2005E	2006E	2007E
Enterprise Valuations					
NOPLAT	11.6	10.5	12.8	15.7	15.6
Inv Cap	243.2	244.4	272.4	309.2	335.3
ROIC (%)	6.5	6.7	7.9	9.2	7.5
WACC (%)	5.7	5.3	5.2	5.4	5.4
Economic Profit	2.0	3.5	7.4	11.5	7.1
Free CF	12.8	-9.3	15.0	18.4	19.5
EV	94.3	115.3	119.3	120.9	123.9
EV/EBITDA (X)	9.4	12.8	11.1	9.4	10.4
EVA Spread	0.8	1.4	2.7	3.7	2.1

Source: Company data, Kim Eng estimates

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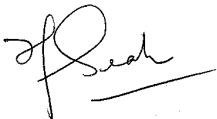
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