

Results Update

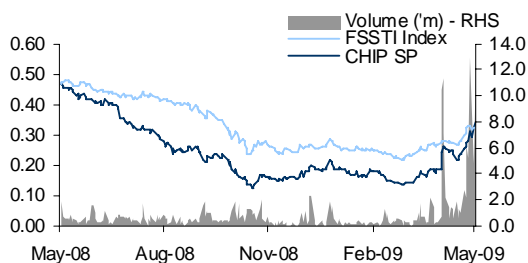
DOWNGRADE HOLD

Share price	S\$0.345
Target price	S\$0.30
Previous: BUY	S\$0.29
Upside / (Downside)	-13.0%

Stock data CHIP SP

Sector	Real Estate
Issued capital (m shs)	667.52
Market Cap (S\$m)	230.29
Category	Small cap
12 mth price range (S\$)	0.125 / 0.480
Year to date change (%)	81.58
Free float (%)	79.82
Avg 30days volume ('000)	3,021.50
Major shareholders (%):	
Citadel Investment G	21.66
Tiam Seng Lim	12.39
Tiang Chuan Lim	6.62
Lee Meng Chia	0.84

Stock price relativity



Analyst

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Chip Eng Seng Corporation Ltd

- Good results; fully valued

Main catalysts

- **1Q09 results largely in line with expectations** – Net profit rose 53.5% to S\$12.4m in 1Q09, largely contributed from progressive recognition of its joint development projects, CityVista Residences (~30% completed at 1Q09) and The Parc (~50% completed at 1Q09) which resulted in a 89.9% increase in share of profits from associated companies to S\$14.8m. Grange Infinite, 20% completed at 1Q09, is expected to contribute in coming quarters. We believe Chip Eng Seng is on track to meet our expected completion of 60%, 70% & 60% for CityVista Residences, The Parc and Grange Infinite respectively.
- **The Suites@Central development update** – The Suites@Central, a 157-unit freehold condominium, is a joint development by Keppel Land (60% stake) and Chip Eng Seng (40% stake). It was recently announced that an en-bloc purchaser, who purchased 51 units on deferred payment scheme, was granted an extension of six months to arrange funds for payment on the condition that the purchaser pays S\$0.5m/month during the extension period. The first S\$0.5m payment has been made. The Suites@Central was recently transaction at S\$1,500~1,535 psf in April 09. It was also reported on Business Times on 12th April that a development next to The Suites@Central, Illuminaire was 96% sold, achieved an ASP of S\$1,700 psf. Given that 20% of the purchase price (S\$1,806 psf) had been paid by the buyer, with the remaining balance of S\$1,445 psf due for collection, we do not expect the JV to sell the 51 units at a price that is significantly lower than S\$1,445 psf if the buyer default in payment eventually.
- **Earnings estimates largely unchanged** – We increase our construction gross profit margin assumption by 2.0% on stabilization of construction cost, bringing our gross profit to S\$7.9m. However, we also raise our operating expense forecast to S\$18.1, to account for the S\$2.1m management and structuring fee for the S\$60m bridging loan, lifting our FY09F bottom line forecast by 2.0% to S\$68.1m.

Valuation & Recommendation

- **Downgrade to HOLD; Target price S\$0.30.** We are keeping our valuation method unchanged, maintaining 40% discount factor to our SOTP valuation, in line with the discount applied to other property stocks under coverage. We raise our target price slightly to S\$0.30, mainly due to higher construction income resulting from higher construction margin. While we continue to like Chip Eng Seng, we believe that the stock is fully valued at current level. The recent rally has lifted Chip Eng Seng's stock price by 155% since 9th Mar, outperforming STI index which has risen by 50% during the same period. Downgrade to HOLD. Risk to our recommendation includes extended market rally which may lift the share price to a higher level.

Financial snapshot

FYE: Dec	FY07	FY08	FY09F	FY10F
Revenue (S\$ 'm)	201.2	354.6	296.6	221.8
Gross profit (S\$ 'm)	0.6	14.1	7.9	9.7
Net profit (S\$ 'm)	50.3	43.9	68.1	72.9
EPS (Sg cts)	7.5	6.6	10.3	11.1
EPS growth (%)	210.9	(12.8)	56.9	7.1
P/E (x)	4.6	5.2	3.3	3.1
P/B (x)	1.4	1.2	0.9	0.7
ROE (%)	31.4	23.7	27.3	23.4

1Q09 Results

FYE: Dec (S\$'M)	1Q09	1Q08	Change (%)
Revenue	79.0	59.9	31.8
Cost of sales	(77.4)	(56.5)	37.1
Gross Profit	1.6	3.4	(54.9)
Other income	3.7	1.4	nm
Selling Expenses	(0.4)	(0.1)	197.8
General & Administrative expense	(5.6)	(3.4)	63.0
Financial Cost	(0.9)	(0.8)	14.7
Share of Profits from Assoc Companies	14.8	7.8	89.9
Profit before tax	13.2	8.3	58.2
Income Tax expenses	(0.8)	(0.2)	219.6
Profit after tax	12.4	8.1	53.4
Minority interest	(0.0)	(0.0)	(30.0)
PATMI	12.4	8.1	53.5

Valuation Table

FYE: Dec	NLA/GFA (sf)	Stake	Sold	Tenure	Valuations (S\$psf)	Capital Value (S\$'000)	Gain/(Loss) (S\$'000)
Investment Properties						29,806	
Market Value of Investment properties						(29,806)	-
Book value of investment properties as at FY08							
Development Properties							
Net present value of future profits							
Oasis @Elias Road	456,162	100	-	99yr	540	(502)	
Suite@Central	223,028	40	100	FH	330	2,827	
CityVista Residences	156,644	50	54	FH	200	44,134	
The Parc	899,841	50	94	FH	140	68,032	
Grange Infinite	175,803	25	100	FH	520	24,550	
Surplus from Singapore residential development properties							139,041
Surplus from Vietnam residential development properties							1,975
Construction Income							
3x FY09F earnings							6,640
Total Gain/(Loss)							147,655
NAV (as at 31 Dec 2008)							185,287
SOTP (S\$'000)							332,942
Total Shares issued ('000)							659,514
SOTP per share							0.50
Target Price (40% discount)							0.30

Source: Westcomb research

Financial Statements

Income Statement, FYE 31 Dec

S\$ 'm	FY07	FY08	FY09F	FY10F
Revenue	201.2	354.6	296.6	221.8
COGS	(200.5)	(340.5)	(288.7)	(212.0)
Gross Profit	0.6	14.1	7.9	9.7
Operating Expenses	(9.9)	(17.8)	(18.1)	(16.8)
Other Income	8.4	1.0	1.0	1.1
Operating Profit	(0.9)	(2.7)	(9.2)	(6.0)
Share of profits from associates	51.9	49.2	79.9	81.6
Net Interest Expenses	1.6	2.0	2.0	2.0
Profit before tax	52.6	48.5	72.8	77.6
Income Tax	(2.3)	(4.6)	(4.7)	(4.7)
Net Profit	50.3	43.9	68.1	72.9
Minority Interest	0.0	0.0	0.0	0.0
PATMI	50.3	43.9	68.1	72.9
EPS (Sg cts)	7.5	6.6	10.3	11.1
DPS (Sg cts)	1.8	0.8	2.0	2.3
Book Value per share (Sg cts)	24.0	27.8	37.8	47.3

Cash Flow, FYE 31 Dec

S\$ 'm	FY07	FY08	FY09F	FY10F
Profit before tax	52.6	48.5	72.8	77.6
Adjustments:	(47.5)	(36.2)	(81.0)	(82.6)
Change in working cap.	20.1	(67.2)	24.5	4.8
Income tax paid	(1.6)	(1.7)	(7.2)	(4.7)
Net Cash from operations	23.5	(56.6)	9.1	(4.9)
CapEx	(1.6)	(1.7)	(1.0)	(1.0)
Others	(43.6)	(5.7)	59.2	282.7
CF from Investing	(45.1)	(7.4)	58.2	281.7
Dividends Paid	(7.5)	(11.5)	(4.0)	(10.6)
Issuance (Repurchase)	25.5	0.0	0.0	0.0
Net Borrowing (Repayment)	12.9	101.0	(58.4)	(30.3)
Others	0.0	0.0	0.0	0.0
CF from Financing	31.0	89.4	(62.4)	(40.8)
Change in Cash	9.4	25.4	4.9	236.0
Starting Cash Balance	13.1	22.5	47.9	52.8
Ending Cash Balance	22.5	47.9	52.8	288.8

Balance Sheet, as at 31 Dec

S\$ 'm	FY07	FY08	FY09F	FY10F
Property, Plant & Equipment	2.3	3.0	3.1	3.1
Others	201.6	252.2	274.9	75.8
Non Current Assets	203.9	255.2	278.0	78.9
Property held for sale	14.2	6.9	6.9	6.9
Contracts in progress	10.6	8.9	9.3	9.8
Development properties	30.1	133.1	104.0	104.0
Trade and other debtors	50.6	97.1	48.6	24.4
Cash and cash equivalents	22.5	47.9	52.8	288.8
Total Current Asset	128.0	293.8	221.6	433.9
Trade creditors	65.6	143.4	89.5	69.2
Bank borrowings	5.0	100.5	110.6	94.0
Others	20.0	33.7	32.5	34.0
Total current liabilities	90.7	277.7	232.6	197.2
Bank borrowings	80.1	85.6	17.1	3.4
Others	0.6	0.3	0.3	0.3
Total non current liabilities	80.7	85.9	17.4	3.7
Share Capital & other reserves	160.3	185.3	249.3	311.7
Minority Interest	0.2	0.2	0.2	0.2
Total Shareholders Equity	160.5	185.5	249.5	311.9
Growth/Ratio (%)	FY07	FY08	FY09F	FY10F
Revenue Growth	21.9	76.3	(16.4)	(25.2)
Gross Profit Growth	(94.9)	2,086.1	(44.3)	23.7
Net Profit Growth	242.1	(12.8)	55.0	7.1
EPS Growth	210.9	(12.8)	56.9	7.1
DPS Growth	16.7	(57.1)	166.7	12.5
Gross Margin	0.3	4.0	2.7	4.4
Net Margin	25.0	12.4	22.9	32.9
ROE	31.4	23.7	27.3	23.4
ROA	0.2	0.1	0.1	0.1
Net gearing (x)	0.4	0.7	0.3	Net Cash
Valuation	FY07	FY08	FY09F	FY10F
P/E (x)	4.6	5.2	3.3	3.1
P/B (x)	1.4	1.2	0.9	0.7
Dividend Yield (%)	5.1%	2.2%	5.8%	6.5%

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

Technical comments and recommendations are short-term and trading oriented.

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